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Tuesday, April 17th, 1962.

ROYAL COMMISSION ON BANKING AND

FINANCE

I N D E X

ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Toronto,
Ontario, on Tuesday,
April 17th,1962.

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H.A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary

Toronto, Ontario,
Tuesday, April 17th, 1962.

--- On resuming at 9.15 A.M.

SUBMISSION OF CANADIAN SMALL AND INDEPENDENT BUSINESS FEDERATION

APPEARANCES

J.B. Brien	-	President
R. Bishop	-	Director
A.H. Wilson	-	Trustee
D. Quince		
L. Withers		

MR. BRIEN: This is not a summary of the brief really because our brief is rather short anyway, but this is a few comments that we felt should be made.

We would like to give you the reason why we feel that institutions such as insurance companies, trust companies and the like could include small business investment in their portfolio.

Basically small business is not looking for subsidies, we do not need hand-outs, but we do feel that forceful action is needed to buck the conservatism of the Canadian investor. The "play it safe" attitude is evidence through all the history of investment in this country.

First by necessity, then by inclination, we allowed foreign investment to develop spectacular opportunities in Canada. When we did we have the money we were either so used to having someone else take the chance or so unaware of what gains could be made, that we

[illegible]

continued to let other people provide the risk capital.

By now the word "risk" sends a shiver down the spine of the Canadian investor, so the Canadian with the money played it safe, formed investment companies, bought up small companies that were already doing well and successfully consolidated them. Natural growth was often a good help. Most of the spectacular development was in mining, where the man who discovered the mineral and provided the early financing was smart enough to hang on to a chunk of the business that foreign capital developed.

This conservatism is evident in the fact that most large businesses in the country stick to their field, and we have cases where when they could not continue to expand in their field in this country, they finally had to get out to go out of this country. Otherwise they might have had to enter new fields and take chances.

If Canada is going to develop, risk capital would be needed, but when you ask for risk capital most Canadians' reaction is to wonder whether to phone the police before they phone the Better Business Bureau. That is why we feel that some inducement is needed to get risk capital moving into the development of secondary industry.

Coupled with the conservatism of the Canadian investor is the growing towards institutionalization of savings. This is occurring in many forms. We will just list a few. The total assets of trust companies grew by 10¼ per cent from 1959 to 1960 and again last year. Mortgage companies grew by 9½ per cent in the

period, both rates well above the increase in the Gross National Product. The assets of these companies total more than $ 9 billion. Their earnings have increased at a faster rate than those of the corporate sector of the economy.

Some of the main reasons for this growth occurred through expansion into new fields such as management of investment funds, conservative non-risk investment, and the expansion of pension plans which have grown by $40 to $50 million a year.

Another big example of the growth of funds held or controlled by institutions, is the investment companies. Their combined assets total $1-3/4 billion, and their growth has been immense in the last ten years.

Insurance companies continue to grow at approximately 6½ per cent a year and now have assets of more than $11½ billion.

The total assets of these companies total an amount of $22 billion, about $ 3 billion more than the banks, the suppliers of funds for small business. These companies are growing at a faster rate than other sectors of the economy, and the trend is expected to continue.

The ordinary Canadian sees an opportunity to make a little more money in these institutions than by leaving his money in the bank, but he still plays it safe.

Apparently trust companies now have 15 per cent of bank deposits.

The Canadian with a little more money puts it into mutual funds and these are growing very rapidly,

with their portfolio mainly in gilt-edged stock.

One of the main things that will accelerate the trend towards institutionalization of funds will be the growth of pension plans. The portable pension plans, I believe, are coming, and when they do there will be a big jump because people will take out pensions at an earlier age. The portable pension has to come if people are going to be able to switch jobs when they are over 40.

These large companies then would be the prime source of investment capital, but traditionally they have been the most conservative of investors, certainly much more conservative than their counterparts in Britain or the United States.

Let us look at their portfolio as an example. For many of these companies, of course, just like the bank, there is little information available on the break-down of their portfolio, but from what is available we can see that trust companies -- and there again information is only available under the companies' own funds or their guaranteed funds, they invest about 13 per cent of their total funds in equity. Of this percentage about 46 per cent is in bonds and debentures, 37 per cent in mortgage loans, under 5 per cent in collateral loans, under 4 per cent in stocks. Government bonds account for three-quarters of that section of the portfolio.

Investment companies have from one-half to nine-tenths of their portfolio in stocks but little of this could be called risk investment.

Insurance companies: 54 per cent of their investment is in government and other bonds, less than

6 per cent in stocks, about 31 per cent in mortgage loans and agreements of sale, about 5 per cent in loans to policy holders. By comparison the banks have nearly 40 per cent of their portfolios in loans and 35 per cent in securities.

In the United States, where information is more readily available, the counter-parts of these companies are not quite as conservative. Many of their trust companies, supposedly the most conservative of investors, have more than half of their funds in stocks. British insurance companies have about a quarter of their funds in stocks.

Our federation feels that to have these companies, whose assets total more than the banks, invest a small part of their portfolio in small business, would not only buck the trend towards the institutionalization of funds, but would also stimulate the economy at a critical point in the country's development. We do not feel the risk would be that great.

The banks apparently are aware of this trend towards institutionalization of funds and this is why possibly they are investing through, the trend is towards purchase of trust companies. If we consider that the bank can push very heavily to the country the institution of consumer credit, we feel that there is, there should be and there is as much cost and risk in consumer credit as there is in investing in small business.

As the financial institutions grow and the banks invest in them and expand their consumer credit, and this is happening now, we feel that some of their

money obviously would lower the percentage of funds available for the small business.

We think that by inducing investment companies to put part of their portfolio into small business, all the trends mentioned could be counteracted.

While we pick the percentage of 10 per cent arbitrarily, we have certain bases for this amount, for this percentage. If we take the figure of $22 billion, 10 per cent would be $2.2 billion investment in small business per year, or rather at the moment, right away.

We feel, and we know by experience, that the minimum of $10,000 invested with a small business would produce at least one new job. Now, if you put in 200,000 jobs in the economy, I think Mr. Diefenbaker will not have any problem in the next election. Let us not forget that every new job produces some additional work for somebody else and this has a mushrooming effect.

The mechanics of this change in portfolio would be difficult, but could be worked out, and we submit that the investment in small business would be of immense profit to the investors.

The investment could be pooled, perhaps in a division of the Industrial Development Bank, under careful management. This is the key to our brief. We do not believe that investment alone, that money alone would help the small business. This management would pick the areas of investment, would supervise the investment and provide management aid that small business needs so badly. Dunn & Bradstreet report that poor management continues to be the major cause

of business failure.

Our federation submits that risk capital allied with management aid, could go far in consolidating present small business in Canada, and opening new industries for the benefit of the whole economy. Thank you.

THE CHAIRMAN: Questions?

COMMISSIONER GIBSON: Mr. Brien, I would like to ask a few questions. First of all, would you mind telling us a little bit more about the purposes and activities of your federation. I understand that you propose legislation to various governments, and that you provide a certain amount of management service, and put out a magazine. Would you like to elaborate on this a bit.

MR. BRIEN: Well, this federation, as you know, is fairly new. It was started by a group of five of us. Four of them were my friends. I mean, you cannot help interjecting some political influence in this, because they exist and they are pretty big in this country. Four of them were Conservatives, and I happened to be a Liberal by tradition, and before the election of the Conservatives my friends felt that the problem would immediately be solved as soon as Mr. Diefenbaker would be elected. I did not agree with this. I felt that we should get together that nobody would do anything for us if we were not ready to do it for ourselves. However, they suggested we wait and then the Conservatives were elected. I had a bit of a forum or seminar, a group of us organized a seminar at the King Edward, and Mr. Roberts came in and gave us a nice talk about

not to expect too much of the government and what was needed was for us to pull up our socks. I promptly told my friends that it would not be too much different to what it was before and he agreed, so we felt that we should do something, that nobody was going to help us, and it was a case of the small businessman helping ourselves.

I personally used to be a management consultant, used to work for large businesses, and I was always appalled by the lack of intelligence and the stupidity in my superiors, so I felt I could do better by going into business and teaching these others how to run their business. I sold a few, I made a few sales in large business, but I soon found out that after one did a lot of work to make a sale, they gave the job to Wood, Gundby by the time I was finished, so I found out that if I wanted help I had better to go back to people of my size, so I started working with small businesses which is all right with me because there is more of them anyway.

Then I found out after working here, that most of them either would not listen to me or they wouldn't pay me when I did work for them.

So we felt that because most of them, because they could not afford to pay me, we felt that we had to get together. I feel very strongly about this, that the small businessman, it is independent and professional as a group of small people, are a very, very important segment of this economy and they are completely disorganized.

There is not much place in the world now,

and the world does not like the rugged individualist as such. We like things nice and conveniently pigeon-holed. Labour is well organized, farmers are well organized and big business is well organized or otherwise they would not be big, and they should be. So we felt that until we could put some strength behind our voice as a group we would be pushed around a little bit. I mean, when we talk we would like to be listened to. We have tried, all of us here have given a lot of our time to meet a lot of other people. If somebody comes to us and it is a problem of accountancy, we call an accountant, or if it is taxation -- we call one another. I can truthfully say that no one has come in without we have tried to help them. We are not too sure yet what is going to happen, what we are going to do, because we are groping. The main point, the main idea behind this is to get strength behind our voice, so that we will be listened to, and I can tell you we are not very big yet.

Three years ago I was turned down for a $400 loan at the Royal Bank, and a year ago I had the privilege of talking face to face with the President of the Royal Bank as secretary. So it works. People listen to you. It has not accomplished very much yet but it works.

COMMISSIONER GIBSON: Tell me, you charge a certain fee for membership. This fee is for the representation that the Federation gives?

MR. BRIEN: Pay the expenses, yes.

COMMISSIONER GIBSON: Do you also give management advice and assistance to the members?

MR. BRIEN: Yes, but the members give that. We have no staff as such to provide this. So far it is mutual.

COMMISSIONER GIBSON: I see, this is a sort of co-operative operation.

MR. BRIEN: Yes, because we do not have the funds to hire sufficient help.

COMMISSIONER GIBSON: Do you levy your fees in proportion to the size of your members' operation?

MR. BRIEN: Well, we have a minimum and a maximum. The maximum is $100 which so far only two of the members have given, and the minimum is $18.

COMMISSIONER GIBSON: You have given us a pretty good idea of what your general philosophy is. I wonder if you could go into a little more detail as to what small business is and what parts of it invest in the organization. We have heard a lot of discussion about these small businesses, and the only definition I can really find in this brief was a company with a net worth of less than $100,000, in one of your recommendations. Also, what is small in some businesses is not small in others, and in some businesses therejust do not seem to be any small businesses and in others they seem to be mostly.

Can you give us an idea of what your thinking is about organizing small businesses? It must be a selective thing, I take it. You cannot just organize it in general.

MR. BRIEN: Well, I would not say that you cannot organize it in general. As to establishing a

size, as you are very well aware by the way you put your question, this is not an easy problem. The American government has not been able to find this answer, the Canadian government has not been able to find the answer. NObody I know has been able to define a small business. For our purposes we have arbitrarily -- there was discussion over this -- said with a net worth of $1 million or less where there is no access, or where the company is not listed and where there is no access to funds through the broker or investment dealer. That is our idea of a business that is small, and we feel that a business of this size is small no matter what field of endeavour it might be in; while a company, let us say, in the printing field with a million dollars net worth would be large printer from a capital standpoint, it is vulnerable to any fluctuation in the volume of its business and a net worth of a million dollars can be dissipated very quickly, as you know, especially if you have a bank loan of a million and the bank calls the loan -- you are way out on the "sticks".

This is a factor and I have a client that has a net worth of three-quarters of a million dollars and a bank loan of $1 million and the bank called the loan and if he had not found an alternate source of funds he was broke the next day so he was a small man. Would you like the name of the bank, Mr. Gibson?

COMMISSIONER GIBSON: You are the witness.

In some industries small business seems to have a real future and in others it obviously does not. Are you thinking of trying to develop small business in particular areas - I do not mean areas of the country but areas of particular industry more than others?

MR. BRIEN: No, I do not agree with your premise, Mr. Gibson. I do not feel there is a field of endeavour where the small business man with less than $1 million cannot get a chance.

COMMISSIONER GIBSON: I can think of several fields of endeavour where there are no small industries.

MR. BRIEN: I think even in the steel business I think a man with less than $1 million could start today.

COMMISSIONER GIBSON: In the distributive end, yes, but if you think of power, etcetera --

MR. BRIEN: I do not agree with the statement of the Manufacturers Association that unless you have your American market you cannot make a dollar.

COMMISSIONER GIBSON: I am not saying this. What I am saying is are you thinking in terms of certain areas where small business has a better chance of developing and growing and where it seems there are more opportunities for small business?

MR. BRIEN: No, we are thinking of all areas. Take professionals: There is room for the small lawyer, the small engineer, the small architect, the small doctor and I think there is room in this country for a few small rolling mills.

COMMISSIONER GIBSON: There is certainly room for a small contractor but in some business there are only a few units and in others there are many.

MR. BRIEN: What do you have in mind?

COMMISSIONER GIBSON: In the primary steel industry there are four firms but when you get to the distributing end of it there are a lot of them.

MR. BRIEN: I think it is a weakness; I think there should be more.

COMMISSIONER GIBSON: It takes a great deal of capital to go into this particular field.

MR. BRIEN: Yes, because it is very difficult for the small man and he cannot raise the capital to start a steel mill.

COMMISSIONER GIBSON: If he started a steel mill he would not be a small man very long.

MR. BRIEN: If he has a net worth of less than $1 million according to our criterion he

is a small man and I can start a rolling mill today for less than $1 million.

COMMISSIONER GIBSON: Going on to the question of defining a small business I am merely trying to get these ideas.

MR. BRIEN: I am trying to give them to you to the best of my ability.

COMMISSIONER GIBSON: What about the idea of regions? We are more than halfway across this country now and we have gained the impression that small business has a tougher time in some parts of the country than in others. Do you believe in this statement or do you believe that this should be handled in areas?

MR. BRIEN: I believe the small business man has a tough time period. I am not familiar with the Maritimes but I know we have some members from the Maritimes. I was brought up in Ville Marie. I know a small man can have a tough time there. There is a branch of the Banque Canadien Nationale and in the Maritimes we do not know at all yet. We have a few members of course but I do not know the situation. I assume it is more difficult to make a go of it in Newfoundland than it is up in Toronto.

COMMISSIONER GIBSON: Your organization has been growing in the central part of the country, in Ontario and Quebec?

MR. BRIEN: We have a few members in Newfoundland, we do not apologize for this. Bear in

mind all of us here have to earn our own living besides trying to help the small business man so we are limited in this respect.

COMMISSIONER GIBSON: There is another line of questioning that I would like to start with if I may. This is a question of what kind of money these small businesses want. You put quite a little emphasis in your brief on equity capital. You also put quite a little emphasis on long term financing, fixed capital financing. Would you say something about the choice between these two things? As a person who has had some experience in dealing with business men I often get the feeling they would rather have the long term fixed financing if they possibly could rather than break up the equity any more than is necessary.

MR. BRIEN: Our position and my position particularly - and I feel very strongly about this - is that all the needs that the small business man has are the same needs as the large business man except he has not the resources. He needs the same management - general manager, a president, a board of directors, a treasurer, comptroller, a good tax man - he needs all those people and most of the time he has to do all these things himself including maybe the head shipper but he needs these.

Now, from the point of view of financing he needs the same thing as the big company needs and the same management as big business needs. He

needs a portion in equity and a portion in debt capital if he is to have a sound debt structure. If you need more money you need long term debentures or bonds and then something for the short term notes and you need the same thing as is needed by the large business man.

COMMISSIONER GIBSON: When you make your final recommendations or your second to last recommendations you suggest that:

"13. (a) Financial institutions such as trust companies, insurance companies, mutual funds, and the like, be required, either by government directive or by government pressure, to have 10 per cent of their portfolio invested in business with a net worth of less than a million dollars."

Now, what kind of securities are you suggesting that they buy? Is this a mixture?

MR. BRIEN: A mixture of bonds, debentures and risk capital. One of the problems - I am saying that it should be all risk capital, maybe it should be all equity but when you are getting into the 50 per cent tax structure we have got to remember that six per cent dividends is 12 per cent on our tax.

COMMISSIONER GIBSON: If the owners think it is a good business they won't want to sell any more of the equity than they can help?

MR. BRIEN: No, but they need more and I think very few business men - as a matter of fact

I hardly know any of them that would not mind giving somebody a minority interest. He probably might start giving a bit every time they borrowed something. They might give 15 per cent and then 15 per cent on the balance and the first thing you know they lose control which has happened with most of the industries in this country which have gone public.

But it is difficult to say. This has to be studied. Most investment people and certainly all bankers know what the ideal balance of equity debt and short term financing is.

COMMISSIONER GIBSON: But you are suggesting here that various financial institutions invest a certain portion of their moneys in certain securities and it seems to me you should give an idea what sort of securities they should be.

MR. BRIEN: Well, either equity financing or long term bonds or debentures. I think we mention that here.

COMMISSIONER GIBSON: Yes, you do mention it but in a small business are you going to put out a bond issue or what is a convenient way of doing this sort of thing?

MR. BRIEN: With the amount of small business maybe we are too vague, Mr. Gibson. Maybe we are not going in deep enough yet but frankly I do not know what the balance is. I certainly would not want to set up an ideal balance for a small business. If it is so the small

manufacturer's requirements are certainly not the same as the wholesaler in dry goods.

May I make a point, that we do not think that all the problems of the small business man are because he is short of money or because the banks are not doing well enough by him. I think the banks in their field are doing very well in the short term money. One of the problems of the small business man is that being a small business man he is a small business man and he is awkward, pigheaded or selfish, otherwise he would probably be working for somebody else. So he is difficult. We found that out when we tried to organize them.

On the other hand, the fact that he has got all those faults is compounded maybe because banks are run by bankers and big business, in my opinion, is often run by people who, a lot of them, are gutless and spineless and half our trouble is those people won't stand up. This is not part of our brief.

COMMISSIONER BROWN: I wonder if I could clarify one point. You mentioned that small businesses have a tough time. What I would like to get clear is whether it is a tough time operating or a tough time because they cannot get the money to expand. Which do you mean - a tough time making a go of it?

MR. BRIEN: They have a tough time expanding and contributing as much as they could to

the growth of our economy.

The small business man - I think it is his fault, but the small business man nowadays does not ask anything, he does not receive anything to start with and, secondly, with very, very few exceptions except when he goes to the I.D.B. he does not get any big expansion. The average business man when he borrows -- and I think we have had about 500 cases of this - the average business man who goes to the bank goes there because he needs it to keep out of trouble or remain alive. He goes to the bank to consolidate. He wants some loans so that he can pay his installments on the machinery or on the mortgage. Very few of them - and I don't know if it is you, Mr. Gibson, but somebody at the Bank of Nova Scotia said some while ago that the small business man never goes to the bank to get money for new orders. It is true that the average small business man has a problem just to remain alive and to get to the end of the year and he concentrates to keep afloat so he certainly is not getting his money for growth.

Mind you, when I say the small business men have problems they have problems but they are not desperate. Our main point is it is liable to become desperate and certainly they are not contributing what they could to the growth of this country because they do not have access to the funds I feel they should have access to.

COMMISSIONER BROWN: The second point I want to ask here is: Do you know when small business men do get into trouble and go under do you know what the trouble is?

MR. BRIEN: First management and, secondly, lack of money.

COMMISSIONER BROWN: If it is management then do they deserve capital?

MR. BRIEN: Well, I don't know about the word "deserve". I certainly do not feel that the government deserves the amount of money they are taking away from me but they need it.

COMMISSIONER BROWN: I also think there is no divine right to borrow?

MR. BRIEN: No, there is no divine right to borrow but I think there is a need for this in this country to remain alive and make it successful, for the people to make it successful.

COMMISSIONER BROWN: But is management or money more important?

MR. BRIEN: Oh, we state in our brief we feel you cannot need one without the other.

COMMISSIONER BROWN: Well, which has to come first?

MR. BRIEN: I think they should go together. You have got to have good management and money. Money alone is no good.

COMMISSIONER BROWN: That is the point I was trying to get at.

MR. BRIEN: That is the point we make at

the end of our brief.

THE CHAIRMAN: If you have not got good management you probably would have great difficulty in getting any money. If you have got good management you would not have too much difficulty in getting money.

MR. BRIEN: That may be true, I know, but the ability to raise money is salesmanship, not necessarily management. There are a lot of people who have raised money from banks who should never have got it and on the other hand a lot of people who did not get the money who needed it. They were good managers but just could not sell themselves. To raise money from the institutions is more or less of a public relations job. You have to know your banker, you have to cultivate him, you have to be able to sell yourself to him. I know of people who have possibly had more money than they should have had. While you might have theability, I might have the ability to manage, I might be a genius in a factory but maybe I am nc damn good with a banker.

COMMISSIONER BROWN: That is one of the facets of a manager.

MR. BRIEN: Yes, a small business man needs everything the big business man needs. He needs someone to talk to, for instance, to get debentures. Now, how could a mechanic do it? Say he needs it; he is not entitled to say that to anybody, he is entitled to nothing. I was not

entitled to be born in a family where they could send me to college but they did. But if we want this country to grow and be successful we had better start worrying about the small business man; otherwise we will have your business men running to the government with hat in hand.

COMMISSIONER GIBSON: You talk about worrying about small business. This is what I was trying to get at earlier. It seems to me you are saying two things in a way, one, that small business men need better access to finance simply because they have not got as good access as they need and as larger people have.

You are also, I think, implying that you want to see small business grow into medium sized businesses, etcetera, so we are always feeding our economic system and getting new blood into it. These are two rather different things, I think, because some business man never expect or even desire to be anything but small business men in the kind of field they are in and doing the kind of things they are. Others want to grow and the second problem seems to me to be very important, that you want people coming up, getting big, so that you are always developing your system, creating new competition, etcetera. Would you say something about these two problems because that is why I was asking you earlier didn't you think there were some areas where the small business might go farther than other areas. In

some places there are opportunities for people to grow and get big that are much better than others with other types of business, etcetera.

MR. BRIEN: It depends what we mean by "business". Supposing you are a three-man factory and you want to become big in this factory and you are short $15,000; you cannot become any bigger, you cannot double your size because you are short and employ six men instead of three because you are short $15,000 and you cannot get it.

Well now, suppose you have a working capital of $1 million and you employ 50 or 60 people, then you might need access to $250,000 so you can employ 50 people more. I feel that the small business man, the resourceful small business man of ability, there should be available to him the same things as are available to the large or medium sized business man - a source where he can go and sell himself on his ability to grow.

If I have a debenture, if I am listed on any stock exchange and I go to the investment dealers and I say: "I think I can enter the European market, I think I can sell my produce there and I think I can do certain things and I would like to raise a quarter of a million dollars more", there are sources there for me to raise it. I may not get it all but it is there. With the small business man it is not there. Our feeling is that the opportunities given to the big business

men should be given to the small business men not by question of right but by question of need for the country.

COMMISSIONER MACKINTOSH: There are two or three recommendations whose purpose I am not quite sure I understand. You ask that the Bank of Canada be empowered and instructed to control consumer spending through the banks and other institutions and want the rate of interest published as a deterrent. You propose that finance companies which are subsidiaries of foreign firms be required to have much larger cash holdings in Canada, that trade unions be required to keep their funds in Canada. Do you look on these as leaks of capital or application of capital to less important purposes and you want to divert them to small business or do you think that these are just bad things that ought to be controlled anyway?

MR. BRIEN: I must apologize. This brief is presented by a group of people, and while I do not apologize for this article, it is not my cup of tea as such. Mr. Quance, I think, will say something on that.

MR. QUANCE: We feel this is a leak of capital out of the country. The trend in the United States is to prevent this thing, and I think we ought to do the same. This is not really relevant to small business at all.

COMMISSIONER MACKINTOSH: That is what was puzzling me. Does the same apply lower down the page where you say that a second look should be taken at depreciation allowed as far as a mining corporation is concerned.

MR. QUANCE: Yes, we just feel the time has passed ---

COMMISSIONER MACKINTOSH: And you say right away that the boy in the back seat needs looking after too.

MR. QUANCE: We just feel this trend in mining is changing and they no longer need this special consideration.

COMMISSIONER BROWN: In the same connection you single out foreign subsidiaries having an advantage because they can charge off losses.

MR. QUANCE: They can write off 52 per cent. They can operate at a deficit in Canada and, providing they are large enough, in the States they can write it off.

COMMISSIONER BROWN: Can't Canadian subsidiaries of Canadian firms?

MR. QUANCE: But they don't have the advantage. The parent company in the United States is making money and establishing itself in Canada.

COMMISSIONER BROWN: Say, a Canadian company operating here in Toronto wanting to establish a subsidiary in Winnipeg: Do they have the same advantage?

MR. QUANCE: Yes.

COMMISSIONER BROWN: Then why single out the American subsidiaries against the Canadian subsidiaries?

MR. QUANCE: I am thinking of a case where it is two firms in some limited field, where the Canadian firm is making a specific product. In this instance the U.S. does have an advantage.

COMMISSIONER BROWN: Say these two firms are in Winnipeg, and one is a subsidiary of a Toronto firm: Hasn't it the same advantage over the Winnipeg firm as over the American firm?

MR. QUANCE: True.

COMMISSIONER BROWN: Then why single out the American?

MR. QUANCE: Merely because the American firms -- say, you are making a specific thing, and one factory is going to serve the entire country and there is only going to be one factory making a go of it in Canada.

COMMISSIONER BROWN: Now you are getting into big business.

MR. QUANCE: Yes.

MR. BRIEN: You will remember I told you we are an awkward lot.

COMMISSIONER BROWN: Some are bigger than others.

MR. BRIEN: We are also divided in some way that, personally, I don't believe in protection or any of that nonsense, but other people do, and I respect them. I have been wrong quite a few times in my life, and I may be wrong here. The position of Mr. Quance is that quite a few of our members, and any other country in the position of Canada -- they grew within a wall of protection. Personally, I don't think it is practical any more; I don't think it can be done, and some people feel we should still protect ourselves. This is a representative view of the Federation just as well as mine.

COMMISSIONER BROWN: How about the I.D.B?

MR. BRIEN: We are quite happy about the I.D.B., especially since the last episode when things are very nice -- since the Coyne episode the I.D.B. is very receptive. I think they fill in a very big need in the country; they do a very good job.

COMMISSIONER BROWN: Well, where is the gap?

MR. BRIEN: The I.D.B. does not supply you with the equity capital. They match you dollar for dollar on investment, but they don't supply the equity capital. It is just another mortgage house, really. You have to have real estate and equipment.

COMMISSIONER BROWN: There are some people complaining that the I.D.B. is supplying the equity capital and should not be.

MR. BRIEN: I don't know of any case where it has supplied equity capital. It some cases it will take money away from the bank -- they will scheme around and say they don't supply working capital, but

that is something else which, technically, they are not supposed to do. But, it does not supply equity capital or bond or floating debentures.

COMMISSIONER BROWN: I think it has.

MR. BRIEN: Not to my knowledge.

COMMISSIONER BROWN: We have been told it has.

MR. BRIEN: Not to my knowledge, and none of our clients.

COMMISSIONER GIBSON: We have been informed that the I.D.B. has taken equity interests along with mortgages in some cases.

MR. BRIEN: It is the same as the bank will take a mortgage as additional security, but it normally does not. If what you say is a fact, we had better go back and speak to them because they told us that they didn't.

COMMISSIONER BROWN: Perhaps only some of them do. Perhaps you should ask some of your friends.

MR. BRIEN: We will.

MR. QUANCE: In any case, we would like to see a real expansion of this activity.

COMMISSIONER BROWN: You make a suggestion that insurance companies should be told to do this. A lot of life insurance companies are now mutual: They are not operating for shareholders; they are operating for policy holders to whom they have dollar liabilities. If you were operating such an insurance company, would you not consider that perhaps you had a trust to make sure you could meet these dollar liabilities and would be reluctant to take risks?

MR. BRIEN: I own a small insurance company -- not a life insurance company -- and, believe me, they are paying plenty right now -- let us put it this way: Let us give them an opportunity without telling them, and let us allow them to charge a little bit more money. Let us guarantee -- the government would say the same thing as with N.H.A.: Let them guarantee any money they lend to small business according to circumstances will be protected.

THE CHAIRMAN: That is an entirely new concept.

COMMISSIONER BROWN: Yes, that is a new concept. Let us deal with the other one first. Life insurance companies now have a 5 per cent basket clause, so they have the facility.

MR. BRIEN: They are not allowed to invest in small businesses now by law.

MR. QUANCE: If you pick your loans carefully and provide the management to guard those loans, we believe there would not be a high percentage of losses -- a very small percentage.

COMMISSIONER BROWN: You said they are not allowed to now.

MR. BRIEN: No. You have got to have paid in -- what is it, to be qualified under the Insurance Act? You have got to have paid dividends for five years running.

COMMISSIONER BROWN: I think you misunderstand me. If you look up the Act you will find a certain percentage of their assets can be invested not subject to these restrictions.

MR. BRIEN: Yes, that is true.

COMMISSIONER BROWN: That is called the basket clause -- five per cent.

MR. BRIEN: Well, they don't, anyway, because we have reports of most of the big ones and I know they don't.

COMMISSIONER GIBSON: The point Mr. Brown is making is, they are in a position to do it if they saw fit up to that amount.

MR. BRIEN: Well, they need some form of incentive. Our suggestion is that a way should be found to see that they do, whether by enticement or by law.

MR. QUANCE: Perhaps if they had more information available through some agent.

MR. BRIEN: I will give you an example: Three years ago I had a small client, a finance company, and money was tight and the bank said, "You have got to reduce your bank loan by $200,000", which meant he was practically out of business. He came to me, and at the time there seemed to be a terrific number of presidents of institutions making speeches in the paper, so I took every one who made a speech and wrote him a very nice letter and I said, "Here is a chance for your company to put some money where your mouth is" -- practically in those terms. So, they promptly made an appointment for me to see the treasurer, and every one of them gave me a nice meeting and explained how they wanted to help the small businessman, but for one reason or another they could not. There was one, an honest man, 63 years old, the treasurer or assistant treasurer of one of the largest insurance companies whose boss had made a very nice speech telling

the government they didn't need interference, and that with the investment dealers they could look after the needs of the finance community without the government sticking their nose into it. So, I promptly sent him a copy of his talk and wrote him and said, "Here is a chance to do something about it". He sent me a very nice letter of introduction to the treasurer, and at the end of the talk he said, "You look like a nice man. Can you keep a secret?", and I said, "I think so." Mind you, this is three years ago and it doesn't apply any more. However, I am not giving any names. He said, "It is all right for that jerk to go around making speeches. I am 63 years old and I am going to be pensioned off in two years, so if I give you $25,000 -- I have got lots of money -- but you are not going to get a cent, because if I loan you the money -- if I was sure you would not lose it you would get it, but if you lose it, that guy jumps on me, and if I tell him that I did it for the small businessman, do you think he is going to give me a medal? He will fire me and I will lose my pension."

I did that with the bank during the tight money policy, and I used to run around with the big speeches of the bank presidents saying that all their money was going to the small businesses, and the managers would say, "Yes, sure". They did the best they could, because they are good people.

However, all jokes aside I feel the money is there. Those people are pounding on our doors every day. I am insured right up to here, and I think they should put that money back to help me.

MR. QUANCE: They have about 4 per cent of the

insurance companies in common stocks, and we see no reason why this could not be expanded to include small businesses. The Sun Life Company at one time had an enormous amount of its portfolio in common stock.

MR. BRIEN: We feel we need two billion to help the economy, to wipe out the unemployment. This is not a joke, and we feel that with two billion there would not be any unemployment to speak of. Where are we going to get it? Are we going to go to the Government, "Raise the taxes and give it to us out of taxation?". We have to take it where it is. We don't feel the money is going to be lost. We feel the person who will lend it to the small business, if he does it wisely, will have very good rewards for his money -- better than he will do with the 4½ per cent he is getting now. Then it will serve the purpose without putting an additional tax burden on. It will do more than a winter works programme and, with all due respect, that is legal.

THE CHAIRMAN: Thank you very much, gentlemen. We have enjoyed listening to this presentation very much indeed.

MR. BRIEN: Thank you very much, sir.

SUBMISSION OF MICHAEL M. KOERNER

THE CHAIRMAN: Mr. Koerner, you have a submission, and I do not know whether you wish to read the summary?

MR. KOERNER: Would you like me to read the summary?

THE CHAIRMAN: Well, we have read the summary and brief.

MR. KOERNER: Well, we dispense with the reading of it.

THE CHAIRMAN: If you would like to comment on any particular aspect of it ...?

MR. KOERNER: No, I have no comments.

THE CHAIRMAN: Perhaps there may be some questions.

MR. KOERNER: I will be pleased to answer any questions.

COMMISSIONER MacKEEN: I have read your brief with a great deal of interest, and I am only sorry there is not time for the Commission to go into it very fully indeed. There are certain aspects of it that I would like your opinions on, and if I skip about you will pardon me because I will want to arrive at a certain point. First of all, I think it will be interesting to get your impressions or ideas of what constitutes a small business; that is to say, one type of business may have a lot of capital investment and medium-sized turnover, and another type may have the reverse. But, what would your general idea be of a small business as compared to a medium-sized business?

MR. KOERNER: Well, in the start of my brief I commented on the fact there are two definitions of small businesses. One in Canada, as it applies to the Small Business Loans Act, which is based on the simple criterion of a gross revenue of less than $\$\frac{1}{4}$ million, which I believe is extremely small and is much too confining. The Americans for the purposes of small business investment companies have a much broader and better defined definition which is, assets of under $5 million, average income after taxation of less than $250,000, and net worth of less than $\$2\frac{1}{2}$ million. There is no mention of turnover, which I think is probably a good thing, because turnover is a very variable thing by the nature of the industry which one operates, and I believe for the purposes of Canada something more modest than what the Americans have used is probably appropriate.

The quantitative definition, the qualitative definition, that is quite often stated as a small business is one which cannot get funds from normal financial institutions or sources. I think this was highlighted to a degree by the previous presentation.

COMMISSIONER MacKEEN: I take it from your brief you find the Canadian definition too small and the American might be a little too broad, and somewhere in between would be the proper figure?

MR. KOERNER: Yes, I didn't want to be more specific in that, but I believe somewhere in between is the right definition for our purposes here.

COMMISSIONER MacKEEN: Now, in the small business as compared with a large business, the problems affecting operation and management are very similar except in degree, would you agree with that, that the same problems beset the small operator?

MR. KOERNER: Generally speaking, yes. The trouble is - and I think this is high-lighted by some of the facts in my submission - that some business men do not have the benefit of the types of staffs which larger businesses have. There is a lesser degree of sophistication and particularly with reference to financing.

American experience indicates that small business men are quite often unaware of how to raise money. It is not necessarily a case that there is no money available for them, but they do not know how to go about presenting their case. They even do not know what the sources of capital are that are available to them.

One of my recommendations which is really of a non-financial nature, is that the small business requires education in this field, and I believe this is a role of government to perform in a more vigorous way than they have up to now.

COMMISSIONER MacKEEN: Well, would you agree with me in this, that the success of a small business depends a great deal on the personality or character of the person and you get into his managerial abilities?

MR. KOERNER: Very much so, and sometimes the problem from a lender's point of view is that you are counting on one man. It is not like lending an organization where there is a staff and you know there is a succession if anything happens to your top people. I think this is one of the financial problems. Quite often you have faith in the top man but you wonder what happens if he disappears from the scene.

COMMISSIONER MacKEEN: Would you go a step farther and say that individuals with that particular flair are rather scarce?

MR. KOERNER: I don't believe so really. This is a difficult thing to say but I do not think we have lost the sort of rugged individualism which perhaps marked the earlier part of this century. I think these people are around and there is ample evidence in Canada of entrepreneurship. The thing I was concerned about was that while there is entrepreneurship it is not backed by sufficient financial resources, and I was concerned about the availability of capital for these people who are doing constructive things in business and who are going places and who are making a good contribution to the economy.

COMMISSIONER MacKEEN: We get further on in your brief to page 20, paragraph 41 which goes into the causes of failure as set out by Dunn and Bradstreet. From the percentages there it would appear that generally incompetence is largely the

cause of these business failures, in the small industry.

MR. KOERNER: Yes.

COMMISSIONER MacKEEN: I think it would be a fair statement to say that inadequate financing might also be a frequent resulting cause of failure?

MR. KOERNER: Yes.

COMMISSIONER MacKEEN: The inability to raise sufficient capital to carry on the business.

MR. KOERNER: Yes.

COMMISSIONER MacKEEN: But there again, would that come from inefficient management, that they would not know what their financial requirements were, and if they did know they would not know how to go about meeting those requirements?

MR. KOERNER: I think that is generally true. I was acting as an officer in an investment company which was in the debenture capital field. We found quite often people would come to us, as I imagine they go to commercial banks, and their preparation is amazingly lax. In other words, the small business men are not familiar with budgetary procedures, not able to think ahead. Quite often people go into business on the basis of a hunch and, as these figures on page 20 point out, they get weeded out pretty fast. Most business failures occur in the second and third years statistically. Therefore we get rid of those

people who seem to be incompetent.

My real thesis is that once they get through this two or three year period, once they have established the fact that they might be able to stay in business, this is where they usually need financing, and if they are growing at that stage this is where the gap appears to be as far as I see.

COMMISSIONER MacKEEN: Now, there are various types of finance required - short term credit which normally comes from the banks and provide working capital for their operations in part. There is no shortage of that sort of capital for a creditworthy borrower.

MR. KOERNER: No, I believe it is very well handled. That is probably an aspect of the market which is most satisfactory from the small business man's point of view.

COMMISSIONER MacKEEN: Then we get into the longer type of bonds, debentures, preferred stocks or equity financing, and that is where the difficulty on this arises, is it not, for persons of long-standing business to get that type of money.

MR. KOERNER: It could even arrive a little ahead of that, in the sense that intermediary capital for small business is quite often very costly. In other words, a small company goes to a finance company to demand to lease equipment. This is very much scaled to a business' financial

capabilities and there is a premium payable by small companies when they go for intermediary financing.

When it comes to long term financing, the resources are relatively limited. I am not aware of what the rates are, because, I mean, these are variable naturally depending on what risk the bank takes.

COMMISSIONER MacKEEN: If a small business man requires to replace equipment due to obsolesence, the fact that it is worn out, you pay more to the manufacturer on credit for these new equipment than you would to the bank, but there might be another inducement apart from the interest rates in the fact that the term for repayment against that purchase price is spread over a period of years and it is not on demand as it would be from a banking source, am I right there?

MR. KOERNER: Yes, very much so.

COMMISSIONER MacKEEN: Don't you think that is probably the reason that most manufacturers or business people taking that type of money are induced to take it?

MR. KOERNER: Well, yes, and I do not think the small business man, perhaps even the large business man, is interest rate conscious as most economists would believe them to be. In other words, particularly with the income tax aspect of interest, the business man is not that

concerned about another quarter or another half per cent when it comes to the cost of money.

Mind you, sometimes it is over-played. Sometimes the cost of money to a small business by acceptance companies and leasing transactions, is very high. It is hard to calculate because there are no set formulae, but nevertheless it is very high, in the order of 10 or 15 per cent, I would think.

COMMISSIONER MacKEEN: Well, when it comes to capital being available in the way that the expanding small business requires, would you agree that past history, where there is a fairly high percentage of casualties, makes the investors somewhat apprehensive?

MR. KOERNER: I believe the risks are higher, there is no question of that, but the rewards are equally high in some instances. I think this is borne out by experience in certain American venture capital companies where their rate of failure is higher than their rate of success, but on balance they profit.

COMMISSIONER MacKEEN: Would you agree though that there has been a change in the last 20 or 30 years, where 20 or 30 years ago there were a higher percentage of individuals with money to put out in risk capital than there are today? I mean, a lot of funds are institutionalized today, and I do not think that you would find the same proportion of individuals who might assist the

small industries in expansion. Would you agree with that?

MR. KOERNER: Yes, I think I made that point at the outset of my brief, and the progressive income tax and the estate taxation, I think, limits the sources of personal funds. On the other hand, the incentive of the capital gains which may be made through an investment in an individual enterprise is still pretty attractive to the individual.

This comes down really to my first point in the recommendations, and that is that none of these things can be factually analyzed because there are no facts. To a degree this is all assumptions, is it not, that perhaps there is less money for individuals in Canada, when conceivably in absolute terms there is more.

COMMISSIONER MacKEEN: You heard the point made by the Federation that a certain portion of the assets of institutions would be set aside for investment and secondary or small industries.

MR. KOERNER: Yes.

COMMISSIONER MacKEEN: We have heard that same suggestion from other sources since we have toured across the country. What is your opinion on that as a practical means?

MR. KOERNER: I think it is a good recommendation. I believe though that rather than making these investments directly, the institutions

should consider the formation of a specialized investment company (this is part of my recommendation) which would have the requisite management to supervise such things.

In other words, I do not feel that the same people who are qualified to make investments, say, in high grade bonds and mortgages and what have you, should necessarily make judgments on this other class of investment.

COMMISSIONER MacKEEN: You have in mind something like the British Consortium?

MR. KOERNER: Yes, and I had in mind something along the pattern of the small business investment companies in the States, many of which have been supported with institutionalized funds, bank funds, insurance money and such, but they have their own separate managements.

That underlies this situation of follow-up and living with their investments, which I think is a problem that they have unless they have got high grade bonds in their portfolio. There is very much less follow-up required than if you took out convertible debentures of a small business where both the debenture and the conversion privilege is always a hazard.

COMMISSIONER MacKEEN: Many of our provinces give assistance something along that type to get small business started. Are you familiar with the Quebec plan which I think is before the Legislature at the present time?

MR. KOERNER: No, not in detail.

COMMISSIONER MacKEEN: It is pretty much along those lines from what I have heard, is it not, or what you have heard of it?

MR. KOERNER: Yes.

COMMISSIONER MacKEEN: A $10 million corporation but they do not propose confining their activities to small business only. They go in for fairly large business too, in fact very large business, am I right in that?

MR. KOERNER: I am not quite sure if we are thinking about the same thing. Which company or proposal are you referring to, sir?

COMMISSIONER MacKEEN: I do not think it has been passed by the Legislature yet, but it has been very fully discussed in Quebec, with a capital, I think, of $25 million, specifically to do pretty much what you have in mind with the S.B.A. and S.B.I.C.'s.

MR. KOERNER: Yes.

COMMISSIONER MacKEEN: Would you suggest that if there were S.B.I.C.'s formed, that they would be better to come under federal assistance or provincial assistance?

MR. KOERNER: Well, I would prefer federal direction. I think this has to be co-ordinated with the effort of the provinces which has been considerable in isolated instances, and one of my recommendations is that a new Crown corporation should be formed which would be

responsible to small business across the country, which would take over the direction of the Industrial Development Bank, and which would also administer or help to administer provincial plans, and these private investment companies which I suggest should be formed by institutions or perhaps even individuals, though I believe this is more of a role for institutions.

If I can digress to one point which I think has already been borne out by American experience, there they have allowed the formation of S.B.I.C.'s in virtually all sizes. In other words, the minimum size is $150,000 subscribed capital and there is apparently no maximum. This has created a problem that there is a whole host of small companies who cannot afford correct management, who may be marginal in their operations and take risks which can wipe them out.

Possibly in Canada we would be much wiser to limit these companies, if they are to be formed under some kind of government control or charter, to a handful of larger companies so that they can afford the management and have a sufficiently large base of capital so that they can afford to diversify their risks.

COMMISSIONER LEMAN: This has the effect of spreading the risk.

MR. KOERNER: Yes, plus the fact that a large enough amount of capital generates sufficient income so that the company can afford to have good

management, it can afford to make thorough investigations, higher professional counsel as required, and follow up investments made.

THE CHAIRMAN: I think perhaps this is a convenient time for an adjournment. We will adjourn for about ten minutes.

--- Adjournment.

--- Upon resuming after the recess.

THE CHAIRMAN: Mr. Koerner, we will now resume. If you would proceed.

COMMISSIONER GIBSON: I might ask a few questions, Mr. Koerner. I wonder if you would say a little about what you regard as the nature of this small business problem. Reading your brief I get the impression that you put the emphasis on the desirability of growth, building up small business so that they are not small businesses any more. What is your philosophy or approach to this problem?

MR. KOERNER: Well, the basic approach was one that I felt that whatever might be brought about by these sort of recommendations should not subsidize small business for the sake of its smallness but should help it to grow and obviously as it grows it would transgress the barrier from small business to medium large business and larger business which I think is all to the good. But at times I have felt - and I think this is borne out by actual legislation - that the political end of the government has a tendency to legislate in a manner which benefits all and therefore has a tendency to subsidize rather than to encourage those people who are doing a great amount of good to the economy - companies who are growing rapidly, providing employment and possibly exports.

COMMISSIONER GIBSON: Do you see any

particular industrial areas in the economy where such efforts should be more fruitful than in other areas from the point of view that could see more need for encouraging small businesses in certain areas more than others?

MR. KOERNER: I would not like to pick on any particular type of the economy save that I think quite probably there is perhaps a tendency in Canada not to employ new technical devices and new technologies. This may be related to the fact that we do not have much defence effort in Canada. I think if you analyze small business in the States which have grown rapidly like the electronics industry, the exotic metals field, these things have grown rapidly because capital was made available to them and also the government has spent large sums of money on the various projects and developments. Perhaps the government is there to buy the product. I have probably put it in the wrong order.

COMMISSIONER GIBSON: What about the facilities we have? We have in Ontario the Ontario Research Foundation, we have the National Research Council and a certain amount of work going on around the universities. Do you think these facilities are being adequately used by small businesses?

MR. KOERNER: Perhaps they are not. This is probably one of the problems of the sophistication of small business management again.

They are so busy running their own show where, as the previous speaker pointed out, they are doing everything from chairman to shipper. They do not have time to contact these government and provincial organizations, the ones of which you have been talking. Perhaps some effort should be made by these organizations to present their services to small business.

Perhaps the need is more perhaps in the suggestion that we should have a Crown corporation directed towards small businesses. I would consider this to be one of their primary roles, an educational role to these small businesses to tell them what is available to them, how to sell to the trade, what the government help is which is offered through the National Research Council and such other things.

COMMISSIONER GIBSON: You have got in most provinces now some form of active interest either in small business as such or in developing interest as such and the two things are not too different at times. Do you look at these various organizations in your broader plan? We have heard quite a bit about these coming across the country already, how particular provinces are basically trying to get more industry within its borders. It is also an emphasis on small business and there seems to be a lot of effort going into this sort of thing and one gets the feeling that it ought to be directed towards that.

MR. KOERNER: I agree with that and I believe this is where the federal government through, say, a Crown corporation would assume direction, not only of the federal government's role but also the provinces' roles. I do not know how much co-ordination actually exists. I have not had an opportunity of looking into that but I believe there is a great role here for co-ordination by the federal government and I think if it were focussed in one activity by one Crown corporation it would mean much better control and more direction and therefore that much more co-ordination.

THE CHAIRMAN: There is a department of the provincial government that used to be called Trade and Industry and it is the sort of work that it has been doing for some years. I don't know whether it does everything that you have in mind but I understood that they co-operated very fully with the various federal organizations, the Industrial Development Bank, the Department of Trade and Commerce and there was the fullest co-operation and I think there still is.

MR. KOERNER: I do not mean to imply there was not co-operation. I was trying to state the case that I believe there is still some room for some activity and certainty room for co-ordinating the programmes of these organizations which include the Industrial Development Bank and the provincial programmes and whatever private

enterprise might be doing in this field.

COMMISSIONER GIBSON: You speak of creating this corporation? I get the feeling that some of the provinces are co-operating with the federal government but that does not necessarily follow that the people who need these services are getting all the services available to them. This leads on to the question who is the right person to do this co-ordination and education, if you like. You do not put much emphasis on the I.D.B. Why is that? Do you not think it is the appropriate organization to take the normal leadership?

MR. KOERNER: I think the I.D.B. as a mortgage institution to smaller business has done an excellent job but I should not actually care to see it extended beyond that because I believe the assessment of risks, say, in the fields of equity or convertible debentures or unsecured debentures in small business is something that is probably best appraised by free enterprise, so to speak.

Mainly I believe private money should be induced to go into an institutional investment company which would assess risks but I do not believe this is the role for the I.D.B. I think they would be better contained in the field which they started out in and I think there they have made a great contribution and particularly in that they have opened up some original notions I

believe their business has become more nationwide.

COMMISSIONER GIBSON: You would not like to see them get into the equity side of the business?

MR. KOERNER: Not particularly. I think I would prefer to see another class of institution doing that entirely.

COMMISSIONER GIBSON: Just because you think that they are thinking differently and you cannot do the two things very well as one organization?

MR. KOERNER: Yes. This is borne out by the situation where small finance investment companies have found it difficult to staff these investment companies with their own officers mainly because the banker's mentality is different from that of the investor who is making the money available and consequently the feeling is in those who are controlling these businesses that they must go outside their own organization to get staff.

COMMISSIONER GIBSON: I have a couple of smaller questions I want to ask you. You say that quite a lot of small businesses do not try and get funds. This is related to the subject we were talking about about the various agencies that are available to them. Now, why is this and what can be done to improve this and stimulate it and get them more interested in some way?

MR. KOERNER: Well, my factual basis for

that statement was page 17 about which I believe Mr. Brown asked me earlier this morning and I would like to explain something which is perhaps not clear in that table. This table is drawn from an article published in the Federal Reserve Bulletin and if you look at it there are four basic categories - companies who needed funds, who had both the experience of getting the funds and not needing them and those by which no financing effort was made is the last line of this table. This is not related to the previous summary. In other words, the statement above the indentation used in this table I am afraid does not make that clear. I hope that clarifies the basis of those sums you asked me about, Mr. Brown.

COMMISSIONER BROWN: No financing efforts made are included in the --

MR. KOERNER: They are not included in the needed funds line. Namely, needed funds was in the first exhibit 37.3 per cent. This is made up of 26.3 per cent where needs were met satisfactorily for small business and 11 per cent for small business where the experience was not satisfactory and then another 4.3 per cent made no effort to get money.

COMMISSIONER LEMAN: Although they needed funds?

MR. KOERNER: Yes, so that they were obviously unaware how to make this presentation or

they were so afraid that they would be paying onerous prices for the new money they made no effort.

COMMISSIONER BROWN: But are they then in the table "experience not satisfactory"?

MR. KOERNER: No, they are apart from needed funds, needs met satisfactorily, experience not satisfactory; in other words, they are in addition.

COMMISSIONER BROWN: Where do they come? They must come in the total.

MR. KOERNER: No, they are in the 100 per cent.

COMMISSIONER BROWN: They are in the 18.2 per cent that did not reply at all. They must be in the total response particularly because if they did not reply it would not be known.

MR. KOERNER: No, I think they are apart. There is a total response of 81.8.

COMMISSIONER BROWN: And this is made up of 44.5 per cent, no need for funds, 37.3 per cent needed funds.-

MR. KOERNER: Yes.

COMMISSIONER BROWN: Then the 37.3 per cent is broken down into needs met satisfactorily of 26.3 per cent and experience not satisfactory 11 per cent. That adds up to your 37.3 per cent.

MR. KOERNER: Yes, and in estimating the --

COMMISSIONER BROWN: It must be the

experience not satisfactory.

MR. KOERNER: Yes. Does that work out?

THE SECRETARY: Yes, it does.

MR. KOERNER: I apologize for not being more familiar with this table but I used the table as it was submitted.

COMMISSIONER BROWN: I was going to suggest that is where it comes because it is indented underneath that category.

COMMISSIONER LEMAN: Do you know much about this survey, Mr. Koerner? How critical was the examination of the response? I have a little experience of the kind you refer to in page 17. You say that suppliers sometimes sell supplies of intermediate credit for working capital purposes to customers.

MR. KOERNER: Yes.

COMMISSIONER LEMAN: Experience unsatisfactory in financing in all the kinds of capital you are referring to is something that has to be very critically analyzed. Some small businesses may have a very strange notion of what is satisfactory and what is not satisfactory. Certainly if small business is being helped a great deal in the working capital area it certainly reduces the pressure on them to use whatever equity funds they have in the area that is not working capital.

MR. KOERNER: I believe you perhaps, Mr. Gibson, will bear me out that many business men endeavour to use their really short term borrowings

actually for things which are industrial long term borrowings and this was probably to lower the cost of money or perhaps because it is the only way they could finance. I have experienced that by talking to people.

If I can go back to page 17, Exhibit 4, in Mr. Gibson's early question the things that I found most interesting in this table were the following things: For instance, in seeking equity capital there are three classes of business by size here but no financing efforts were made by 10.7 per cent of the small firms, 6.7 per cent of the medium sized firms, 3 per cent of the large firms. I think this is indicative of the lack of sources to small business and also the lack of experience of small businesses in negotiating for the sale of securities or for the acquisition of a potential investor in their business.

If we go from small, medium, to large in this table one can come to the conclusion rapidly, I think, that small businesses are either not able to sell their case or they are not sufficiently informed as to where to go to sell their case and I believe this is where the informational role, or whatever the role of government is, in small business is so important because the average small business man in the States, as shown by this table, does not have the knowledge to negotiate his own funds. This does not imply there is a lack of capital; it implies that there

is a lack of supply of information between the borrower and the lender in this small business field.

COMMISSIONER LEMAN: But don't you think it is true - and I understand you cannot give a quantitative answer to this but you can perhaps give a qualitative one - don't you think that the small man puts obstacles in the way of long term financing that the larger business does not?

MR. KOERNER: Obstacles of what sort?

COMMISSIONER LEMAN: The resistance to parting with part of the control in a company, etcetera.

MR. KOERNER: I don't think large business want to sell any more equity than they have to in order to maintain a good balance between equity and the various forms of financing. The small business man sometimes is so leery about getting a partner in -- many businesses are family concerns, one man concerns and they do not like to have partners looking over their shoulders.

COMMISSIONER LEMAN: It works for a partner, too. Many people do not want to be blocked in. But there are lots of obstacles, don't you think?

MR. KOERNER: Oh, certainly.

COMMISSIONER LEMAN: Therefore, it is not a purely statistical comparison we want here. There are reasons why you get the results that come

out of the tables on page 17.

MR. KOERNER: Actually, the problem of small businesses quite often is one of how does one get out of, say, in the case of a succession duty problem or in the case of a partner being dissatisfied with his other partner and this kind of thing. There is a major void possibly in the capital structure. There are very few institutions a man can turn to. But the larger companies presumably can deal with investment dealers, exchanges, etcetera, and they can look elsewhere for their capital.

COMMISSIONER BROWN: Isn't this one of the reasons why possibly the cost of larger financing is justified, to offset this?

MR. KOERNER: I think it is but the cost becomes so high in small equity issues that this virtually precludes the transaction.

COMMISSIONER BROWN: There was one other point and that is, the smaller the firm, the more they feel the incidence of a higher interest rate - 20 per cent rather than 50 per cent?

MR. KOERNER: That is right.

COMMISSIONER MACKINTOSH: Is that sound basis for complaint?

MR. KOERNER: Actually one of my recommendations with respect to the internal cash generation of small businesses is that if one raises the limit at which lower tax is applicable then you tend to increase cash generation in that hands of small

business. As long as one felt reasonably certain that this would not lead to abuse I believe this would be a sound way of maintaining the liquidity of small businesses. Therefore it would not need to go the market place for additional funds.

COMMISSIONER LEMAN: Granted that you subdue the I.D.B. a bit because of your private enterprise concept of the best way to accomplish this objective: Why wouldn't the I.D.B. at least become the crown corporation you have in mind?

MR. KOERNER: I think the roles for the crown corporation are much broader than that of a mortgage institution. I think the crown corporation, following the format of what I have submitted here, would head up two types of financial institutions: One, the I.D.B. which I would envsion as being a mortgage bank to small business and operating more or less as it does now on medium-term rather than long-term financing. On the other hand, there would be investment companies sponsored by financial institutions and possibly the public which would make available longer term money and risk capital in the form of equities or convertible shares or debentures, and the crown corporation would supervise both. I don't think the I.D.B. should find itself in the position of supervising loan companies. Also, one of the ideas here for the investment companies is that they have recourse to the crown corporation for borrowing, so they can leverage their investment capital, and I don't think the I.D.B. is the proper place to make such money available to an investment company.

COMMISSIONER MACKINTOSH: What about the single crown corporations of which one division would be, as you say, the present functions of the I.D.B., and the other would be the larger functions of equity capital and loans to investment companies which accommodate them: Do you need all this corporate

structure?

MR. KOERNER: I believe you do if you isolate the functions of I.D.B. from these other functions, and the investment companies since such a financial institution does not exist would seemingly require some kind of incentives to be formed, and these incentives are recommended as being a certain tax incentive plus an availability of government funds to supplement their own funds, and I felt a crown corporation could administer this most effectively because the only other alternative would be the Bank of Canada directly, and I don't know this would be a good way of having it. But I believe thereis room in Canada for a crown corporation devoted to the over-all small business problem, this being a financial problem as well as an informational and educational problem, plus the co-ordination of activities on the provincial level.

COMMISSIONER MACKINTOSH: It is curbed by the attitude that not only the now expanded approach to this problem, with new creatures -- you need to push aside the fact that for a dozen or fifteen years the Industrial Development Bank was the only institution that was doing anything in this area, and it must have accumulated a great deal of experience, good and bad, which surely must be valuable to any new or extended institution. There are an awful lot of people talking about the needs of small business who, on questioning, don't really know very much about small business in any practical way of financing or directing. It is kind of an enthusiasm. I exclude your brief as one of the better informed ones, but there

is a tendency to weep over small business. Whatever small business needs, I think, it is not tears.

MR. KOERNER: I wrote a small section of my brief on what I call the political attitude towards small business, which I think is essentially what you have just stated, sir, and that is that small business is naturally something which everybody likes to put up on a pedestal and talk about, and not too much is done and not too much is known. I think one of the strongest recommendations I have tried to present here is that before anything really is done let us find out more about the needs and problems, because I don't believe sufficient information is at hand, and this is quantitative as well as qualitative information. By comparison, if one analyzes the sources of information in the United States and possibly in parts of Western Europe, there is much more data available, and therefore if something is done it can be done on the basis of analysis and facts. In Canada up to now things that have been done for small business have been done possibly to a degree in the dark -- done with very fine intentions but possibly insufficient information. I would think the Small Business Loans Act was done with excellent intentions, but not very much factual background.

COMMISSIONER LEMAN: Could I refer you to paragraph 28 on page 10: There you say:

> "It is reasonable to assume that the growing company in a dynamic stage of development is always the exception rather than the rule in small business, as it is in big business."

Considering the numbers we are dealing with in Canada and the fact that it is probably an exception that needs this attention, does all this warrant the super-structure you are suggesting -- the new crown corporation, special legislation -- couln't we get at the root of this problem by simpler means?

MR. KOERNER: I am sure there are simpler means. What I have proposed, I don't believe is quite as involved as it sounds, because many ofthe functions which are recommended in this brief are already being assumed. What I felt was needed was a realignment of the functions already in existence under more direct focus through one central organization. As far as the investment companies are concerned -- and this is by no means even an educated guess; it is just a guess -- I stated probably you would not want more than four or five and you would not want them to be more than $10 million to $15 million in size. I don't believe that the previous presentation, which was submitted in terms of $2 billion, is particularly realistic. I don't know what the requirements of small business are, but in Canada they are not monumental.

COMMISSIONER LEMAN: As a matter of fact, I note your brief doesn't quite suggest this should be done, but it seems to suggest that first, before we do anything, we should get a lot more information.

MR. KOERNER: Yes, very much so.

COMMISSIONER LEMAN: I think there are two paragraphs which state this -- 38 and 59: As I understand it, you say, "Before serious thought can be given to remedial action to satisfy the assumed

demand for capital by small business, that demand will have to be studied in detail".

MR. KOERNER: Yes.

COMMISSIONER LEMAN: And then in paragraph 59 I think you repeat that -- practically the same thing. So, would you go a little further and say how this Commission could perhaps get the necessary information quickly enough? What would be the best means of getting the information you suggest?

MR. KOERNER: Well, I believe that there are agencies in Ottawa now that are making studies of this. There has been a great deal more activity, I understand, in the Department of Trade and Commerce in the last three or four years. They have a small business division, I believe they call it, and they are getting some of the data together, and they have made, I understand, requests to certain financial institutions. I was told, and I wasn't able to obtain it, that one or two submissions which are being made to you in the future have got some data together. Perhaps as your Commission progresses people will make more information available to you and you will be, by the end of your hearings, able to have some information which I didn't have or no one, I assume, had in Canada before your Commission started. I think people are trying to get more data together for some of the submissions to be made.

COMMISSIONER LEMAN: This could be a field for a research project.

MR. KOERNER: Very much so.

COMMISSIONER LEMAN: How would you go about getting the information which you believe is needed?

MR. KOERNER: I don't think I am really capable of answering that; I am not a statistician. I would like to see the information. I don't think I have any constructive thoughts on it. Without trying to sound like a parrot on this, again this is something a crown corporation would logically do in the first instance. It would assume the present functions of government's role towards small business which naturally includes the statistical function.

I think in a very brief summary, the three things I was trying to highlight are, one, we should get information within Canada; and secondly, we should try and learn from experiences of other countries where other countries have done a great deal more than we have; and thirdly, by correlating these two, we could make more constructive suggestions for Canada. My own recommendations as to the future are just a stab in the dark.

COMMISSIONER LEMAN: Leading from that, there is another question I would like to ask you: Do you think that the problems of small business are quite different according to the economic cycle the country is in at any given time? Are these problems more difficult or easier in times of boom or vice versa?

MR. KOERNER: I don't know that small business can sometimes be a strong counter-cyclical influence in the over-all economy. It is not a major factor, but it is quite conceivable that even in a down-turn an aggressively managed small business can chop away at other people's markets and export markets and grow, while the larger companies which

are less flexible may be suffering the over-all decline of the economy.

COMMISSIONER LEMAN: But would you think in those periods it is that much harder for them to get the right capital to do this job?

MR. KOERNER: It may be. Coming back to the I.D.B., I think a factual case can be made for the I.D.B. being influenced by the over-all monetary policy of the Bank of Canada. For instance in 1959, and to a lesser degree in 1957, I believe, loan approvals by the bank actually declined more or less in sympathy with the monetary policy of the Bank of Canada, whereas I would assume the call upon money from the I.D.B. is probably very much more pronounced in that period, because the banks and other institutions were hampered in making funds available, and people would have gone to I.D.B. and asked for loans. I am sure they did this but, in fact, the loans declined which would suggest there is a certain degree of influence there. As far as the I.D.B. is concerned, I don't believe it makes more money -- in fact, it makes less money available seemingly during periods of money tightness.

COMMISSIONER MACKINTOSH: I would guess what you say about small business being to some degree counter-cyclical is not really true of small business but is true of growing business. Business with a strong growth factor in it, whether it is small or intermediate in size, will have this defect.

MR. KOERNER: Yes.

COMMISSIONER MACKINTOSH: But I doubt if the rather stagnant little business has any such effect.

MR. KOERNER: On the other hand, if we are talking about the class of small business which is in need of funds, we are more likely talking about a more aggressive and dynamic form of small business than of stagnant companies.

COMMISSIONER MACKINTOSH: Yes, this is the element in your statement.

MR. KOERNER: Yes. I was implying that qualitative element when I was talking about the counter-cyclical effects of small business in an over-all period of recession.

COMMISSIONER GIBSON: I think it is true there is relatively more small business in the service industries and they are less subject to sharp fluctuations and tended to grow in the postwar recessions.

MR. KOERNER: Yes.

COMMISSIONER BROWN: Could we ask a qualitative opinion too: Do you think that small businesses are more subject to pressures during periods of monetary restraint than large businesses?

MR. KOERNER: I really don't know that I can answer that too well. I know it has been a subject which has been discussed, and I think the banks have been accused, perhaps, of putting pressure on small businesses during those times, and specifically with regard to the I.D.B. I think you can say this has happened, but I would not want to answer the broader aspect of your question; I don't believe I know.

COMMISSIONER LEMAN: Would you be against the idea of banks being allowed to take equity?

MR. KOERNER: More or less on the same basis but I would not like to see the Industrial Development Bank take equity positions. This is based on the fact that I believe a different mentality and outlook is required. I think the business of lending and investing are two functions which are quite different and are best performed by specialists.

COMMISSIONER LEMAN: It would be a nice way to get around the 6 per cent ceiling. I think that history in the United States shows that some banks there have done this and quite successfully. Do you know whether this is true or not?

MR. KOERNER: I am not sure about the United States, but certainly in Europe this is eminently true and has been so, I suppose, ever since the Industrial Revolution. Take in West Germany, the major commercial banks are also the major investors in equities of the country. In fact they usually perform all the functions literally of the entire Canadian financial community. It seems to us they are everything unto themselves. This is probably a dangerous thing, though the rate of recovery of the German economy has not suggested it has impeded their growth.

COMMISSIONER LEMAN: Danger from the point of view of what, concentration?

MR. KOERNER: Concentration of power.

COMMISSIONER BROWN: We have had some comments about -- to use a word I do not like -- institutionalization of savings. You suggest that

these new corporations should be financed by institutions. This provides a second step in this development of the savings back of the Canadian public.

MR. KOERNER: Yes, these investment companies in a sense are the vetting organization for institutional monies flowing into small business, and this is done on the assumption that small business investment is a relatively specialized function and this is best done by the specialized management; and the same investment officers, who perform their function admirably in a bank, may not be qualified people to do equity and risk capital lending to small business.

COMMISSIONER BROWN: The point I want to make is, does not that criticism apply equally to the insurance companies, and would it not be better in the long run if you could find their financing for these companies directly from the public rather than through this secondary stage, or do you think that the Canadian public are too safety-conscious to take these direct risks? Is that part of the problem?

MR. KOERNER: No, I think actually the Canadian public is quite speculative in some of its investments. This is borne out by our mine and ore markets. They are certainly not very adventuresome when it comes to industrial quotations of a similar nature.

Perhaps these institutions can act as an intermediary, in other words, they can take a position at an early stage and then at a later stage through

a distribution through investment banking houses they do make these investments open to the public. This is at a more mature stage in the history of such a business.

I think this has been the role of venture capital companies in the United States for instance. Take the American Research in Boston which is probably the best known of these companies. They have often started a company by putting up all the risk money along with the founders of the company, and at a later stage -- this has been the case with High Voltage, for instance, and others -- they have gone to the public on a distribution of stock. In one instance at High Voltage Engineering they distributed their stock to their shareholders as a dividend in kind. This is another way of getting these investments out into the hands of the public.

COMMISSIONER BROWN: Where does this company get its equity capital?

MR. KOERNER: I believe the initial equity capital came from an underwriting by a New York house, and it did this underwriting on the strength of the board of the directors of the company, which is a most impressive list of Boston names.

COMMISSIONER BROWN: That is my point. This equity capital came from the public rather than from some other institution.

MR. KOERNER: I believe it came to a large degree from institutions, I am just guessing, but the representation on the board would indicate there was some institutional money, from insurance companies, from certain foundations. I do not think the average

man in the street was a buyer of that issue, I think one can say that with some degree of certainty.

It was a very unusual issue at the time. It came out in 1946 to 1947, when these things were quite unusual. In fact the American Research and Development was absolutely unique at that point. Today there are a number of companies in the States that are doing similar things.

COMMISSIONER BROWN: Perhaps what you need is encouragement to the Canadian public to take more risks in industrial issues, directly or indirectly.

MR. KOERNER: Perhaps it is a matter of encouraging people who make these issues available to the public. You cannot blame the public if the public does not have the opportunity, or if it has the opportunity it may be a poor type of issue. There have been some very speculative and possibly misdirected small industrial issues in the Ontario markets.

If perhaps our prime underwriters took more interest in the small business field the public would, finding representation of these underwriters in those issues, take a position, but the larger and better known underwriters seemingly do not find it profitable or worthwhile.

COMMISSIONER BROWN: Does that also apply to the United States.

MR. KOERNER: I think it does, but recently there has been more enthusiasm for small company financing. This stems from this growth concept which is quite prevalent now. People are willing to buy companies that are losing money, sort of loss-times-

earned ratio (I don't how it is defined) but sometimes the company sells better in the market if it is losing rather than making money, as long as the orientation is sufficiently exotic to bring in the public. We have nothing of that sort in Canada, probably just as well.

I think there is a role for an institution which in a sense is a boarding house for these investments until they have matured to the degree that the public is willing to take them on. You know, there might be a period of, say, five years where these things are best held by an institutionalized company and then after that period an underwriter can take these securities, debentures or equities and make them available to the public.

THE CHAIRMAN: Any further questions? Thank you very much, Mr. Koerner.

SUBMISSION OF THE CHARTERHOUSE
GROUP CANADA LIMITED

APPEARANCES

Mr. D.L. Sinclair

MR. SINCLAIR: Gentlemen, I do not intend to summarize my brief as my brief is in itself short, but I would like to give you a little bit more background than I included in the brief on who and what Charterhouse is.

We have been in this small business investment game now for some 35 years, originally starting in England, and active now in Australia with partners, in South Africa with partners, on the Continent with partners, and in Canada with partners who are at present not Canadian.

We are doing in all those places exactly the same as we are doing here, by the same investment policies as I have shown you in my booklet.

I might say one thing I could add here is that we have found, though our experience in Canada has not been unsatisfactory, that competition in our line of business, not directly perhaps, is fiercer here and it is more difficult to make money than we have found in other places we are operating.

As you know, we do invest in businesses that are too small to attract underwriting from the investment houses on an economical basis, and are too large to obtain from friends, relatives,

suppliers, customers and so on.

In fact we are a direct result of the MacMillan Commission in the U.K., and we were formed with the specific idea of plugging the MacMillan gap and, as I put in my short brief, we have found that the MacMillan gap in Canada, or we believe that the MacMillan gap in Canada does not exist to the same extent that it existed in the U.K. at the time of the MacMillan commission.

Briefly the summary of our experience is that it is management, management and so on repeated endlessly, which is the reason for the success or failure of businesses in which we invest.

I take some issue with the previous speakers that put financial requirements even at the second or third position on this. I would put financial requirements or financial stringency at the bottom of the list, because we are firmly convinced that a company with sound management will find money from numerous sources at reasonable terms.

In my brief I have, I admit, taken a fairly round-house swing at the I.D.B., and I do not want to belabour that point because I suspect you may have some questions anyway, and I have made a hint, perhaps not as clearly stated as I should have, that government should not subsidize small business; it should not compete with it or should not compete with private sources of money for small business.

I believe that the future use of government in this field could and should be entirely directed to education and management assistance.

In private conversation with Mr. Koerner

before I came here, he said that if a businessman writes to the Department of Trade and Commerce and says, "I am having trouble with costing, inventory control or what have you", the usual reply we get from Ottawa is: "If you will write to Washington, ask them for booklet No. 732 available from the Small Business Administration". I think it is this place that our government can and should get hard to work.

Finally I think, and I hope I have made it clear, that if management of small business, or really of any business, is of sufficient ability, energy, has the proper integrity that an investor will seek, then money will flow, and the money is available now, and if the money would not be sufficient then the money will flow from the various sources that it is not flowing from now -- in other words the insurance companies that are not putting money in small business simply because they feel it is a highly risky game, and that they probably take the same view as I do, that the average small business is not well run. Again, if the small business is operating efficiently, then money will flow.

THE CHAIRMAN: Thank you. Questions?

COMMISSIONER BROWN: Could I start off, Mr. Chairman. As you suspected or expected, I am going to ask you about your criticism of the I.D.B. You say in your first paragraph of your summary:

> "Particularly this concern is directed to the recently broadened and extended activities of the Industrial Development Bank."

This implies that possibly or perhaps you do not intend to imply it but it does imply, that the previous level or some previous level was acceptable.

Is it a matter of the degree to which I.D.B. is competing, or is this a question of the interest rate they are charging or other conditions under which they are advancing money? What is your criterion of the areas in which the I.D.B. participation would be acceptable, and is your criticism directed at the fact that they are competing with Charterhouse or that they are financning companies that are competing with companies that Charterhouse are financing..

MR.SINCLAIR: I think I can almost answer that multi-barrelled question "yes".

COMMISSIONER BROWN: There were a couple of "or's" in there.

MR. SINCLAIR: I believe that, qualified, the I.D.B. is fulfilling a useful function when it is a bank of last resort, and I think it stuck pretty closely to that bank-of-last-resort function prior to July, 1961.

Your second question is: Do I object because they are competing with Charterhouse? Obviously I have an axe to grind, commercial or investment axe to grind, but I do believe it wrong for a government-subsidized organization to be competing directly with someone who is trying to do this on a private enterprise basis. Their money is available to them much cheaper than ours is and much cheaper than all the competing organizations, be they banks, finance companies or be they the multitude of companies doing much the same sort of thing that we are doing.

COMMISSIONER BROWN: Then is the competition you are thinking about with you or with your companies?

MR. SINCLAIR: With us, with Charterhouse as opposed to with our companies.

COMMISSIONER BROWN: Would you give us your definition of a lender of last resort, because the condition of the market must come into this at some stage. In other words, if the manufacturer wants financing and they can only get it at 15 per cent in the commercial market but they can get it at 15 per cent, would it be your implication that they should take that rather than take the more reasonable rate from I.D.B.?

MR. SINCLAIR: I don't know that I have an answer to that.

COMMISSIONER BROWN: What is your definition of "lender of last resort"?

MR. SINCLAIR: What was the I.D.B.'s original definition? I should not be asking questions, but this is something I do not know -- the I.D.B.'s original definition of what reasonable and economical terms were when they set this up.

Could a man go to them and say, "I have tried to get the money or new equipment on an equipment lease at 15 per cent and they will give it to me at 15 per cent, but I think it is too expensive. Can I have your 6-3/4 money". Would I.D.B. view that as an acceptable reason to give to them?

COMMISSIONER BROWN: You said the I.D.B. should only be a lender of last resort. I wanted to know what you mean by that. Have you considered that?

MR. SINCLAIR: I am almost throwing the

question back at you because I say this depends on the I.D.B. attitude as to what "last resort" is in that connection.

COMMISSIONER BROWN: You are the one who said that it should only be a lender of last resort. What do you mean by that?

MR. SINCLAIR: I would think that it depends -- you cannot put specific terms as to what would be reasonable and unreasonable financing, I don't think. What is acceptable to one company which is able to lease its trucks at 12 or 13 per cent, could probably be unacceptable to a manufacturer of bathroom fixtures who could not afford to pay that sort of money for his fixed assets.

So that I do not think there is any pat answer that if a man cannot get money at less than 15 per cent he should go to the I.D.B., or if a man cannot get a public issue. I do not think there is any pat answer.

COMMISSIONER LEMAN: The Legislature sometimes are apt to introduce pious words into legislation that leads to fuzzy thinking. There is no reason why we should indulge in fuzzy thinking ourselves. There must be some criteria.

MR. SINCLAIR: Well, I have in my comments said that if a man is unable to get a term loan from his bank -- because banks had made term loans and did give term loans even during the time when the government or the Bank of Canada was taking a pretty dim view of them. They would be unofficial term loans even if they were not official, and you would get an under-the-table memo from your bank manager that your

one-year loan would be renewed on December 31st.

So if a man goes to his bank and he cannot get a term loan, he goes to a conventional mortgage company and he cannot get a mortgage, and he goes to Charterhouse or one of these other people and cannot get money on any sort of reasonable terms from them: if the business is a sound one and well managed, I see no reason why I.D.B. should not be producing the money, and I think it is a very good thing it does.

COMMISSIONER GIBSON: If a business was sound and well managed, why wouldn't you finance it?

MR. SINCLAIR: We might not like the man's face, we might find him competing directly with somebody we are already investing in, or we might find that he was unwilling to let any equity go. We might feel it was a one-man business and therefore too vulnerable, and for any one of a number of reasons. He might not want to be involved with an institutional investor. He might prefer an individual to deal with. There is any number of reasons why people will not come to us and, to the contrary, there are good reasons why some people like coming to us.

COMMISSIONER GIBSON: You are looking for the cream amongst these enterprises. I notice that while you investigated about 1100 propositions you have financed some 24. Now, this suggests that you are only looking for the exceptionally good ones, particularly good prospects, is that a fair statement?

MR. SINCLAIR: That is reasonably fair, sir, but this is within our own policy limits. I would not say the cream. We are working within fairly narrow policy limits. We will not take on a new business. In new businesses the financing is very much more costly although the returns may be very much higher.

COMMISSIONER GIBSON: Would there be new businesses in the 1100 applicants investigated?

MR. SINCLAIR: Oh, yes, many of them.

COMMISSIONER GIBSON: So you do investigate a business at times to see what it looks like?

MR. SINCLAIR: Yes, and we will make an exception to this policy and have done so on various occasions, once with disastrous results and once with satisfactory results.

COMMISSIONER LEMAN: Would you finance a business that was going to enter into direct competition with another small business you have just financed three or four months ago?

MR. SINCLAIR: Probably not, regardless of how good it was or how well managed or how

well we liked the people.

COMMISSIONER LEMAN: Therefore, anyone else is bound to be competitive with you?

MR. SINCLAIR: Oh, yes. I think perhaps Mr. Brown misread my comments on the I.D.B. to a certain extent because many of the people with whom we have transactions have I.D.B. management or had it when they came to us. This, we feel, is a good thing.

COMMISSIONER LEMAN: Do you find it impossible to work in co-operation or partnership with the I.D.B. or for it to put up certain kinds of funds and yourself other kinds?

MR. SINCLAIR: In many cases people come to us and our answer is: "You do not need us, all you need is a whacking fixed mortgage on your assets, go and see I.D.B.". Until relatively recently the I.D.B have said to people: "You have not got any fixed assets. What you need is fixed capital". If a man has not got fixed assets the tendency is to say: "Well, we will put your mortgage up higher than it is and will take equity as well to compensate us for the greater risk."

COMMISSIONER LEMAN: This you are objecting to?

MR. SINCLAIR: Yes, on purely moral grounds that it is not right for the government to own pieces of private business competing with a subsized (for that is what it is) business although

admittedly the service is available to anyone.

COMMISSIONER LEMAN: Are there cases where you find you can be a lender or investor in a business that also has some I.D.B. money?

MR. SINCLAIR: Oh, I hope many of the companies in which we are involved either do take the I.D.B. mortgages after we have become involved with them or already had I.D.B. mortgages when they came to us. That money is entirely compatible with our own.

COMMISSIONER BROWN: So it is only at the stage where they become competitive with you that you present the argument against their activity?

MR. SINCLAIR: Yes, because I feel that not only are the larger firms but the small business firms doing the job well enough that the government should not be getting into equity and it should only carry out its role. I can see no difficulties about that one.

COMMISSIONER GIBSON: Could you say a little more about your basic policy? You are pretty selective in your choice. As your brief puts it I take it you would like to get a sizeable minority interest. Usually you have a director?

MR. SINCLAIR: We always have a director.

COMMISSIONER GIBSON: Do you contribute fairly actively any ideas to management and that sort of thing?

MR. SINCLAIR: We avoid like the plague

any day to day responsibility. We do not want to be managers as such.

COMMISSIONER GIBSON: But you might in the way of business give policy suggestions?

MR. SINCLAIR: As policy suggestions and as a source of advice when a man seeks advice we are available at any time. We do not want to take a positive managerial position.

COMMISSIONER GIBSON: When you decide you want to help finance this business it must be with one of the thoughts in mind: "This is a good business and it is going somewhere". You must have some idea where you think it is going and hope to facilitate it as well?

MR. SINCLAIR: Yes, but some businesses we have a look at and say that this business, given sufficient money over the next five years is a potential public issue in which case we have an out in sight. In another case we say, this is a solid citizen type of man, we like him and we would like to help him but obviously the business is never going to be another steel company of Canada and obviously we will consequently be a permanent partner locked into the business and we know when we come in we will get a reasonable return and when he retires he will sell us out and look after us.

COMMISSIONER GIBSON: You are not so keen on that?

MR. SINCLAIR: We believe that that is a

necessary part of our portfolio.

COMMISSIONER GIBSON: You have looked at a lot of possibilities here. 1100 propositions is a lot. You have taken 24 of them. What has happened to all the others? I understand a lot of them are outside your sphere of policy?

MR. SINCLAIR: Yes.

COMMISSIONER GIBSON: But there must have been a lot of other good ones out of 1100. Can you make a few comments on that?

MR. SINCLAIR: I think we have missed some damn good ones by perhaps being over-selective. I have seen companies that have come to us and been turned down that have obtained money from other people and have really become public companies. We have seen an awful lot that have been turned down go under. The same reason - poor management, not shortage of money. Correcting a shortage of money would have been only postponing the evil day because the management was not capable of looking after the money.

COMMISSIONER GIBSON: And then quite a lot of these were really outside your sphere of interest, I take it?

MR. SINCLAIR: Yes.

COMMISSIONER GIBSON: Would you know of a good many other cases where the propositions had turned out to be successful?

MR. SINCLAIR: Yes, we have seen a lot of them. All the deserving ones that were outside

our policy an off the cuff answer was that most of them got their money from somewhere and the undeserving ones it is harder to estimate because, you see, they fall by the wayside over the term.

COMMISSIONER GIBSON: But do they fall by the wayside because they could not get money?

MR. SINCLAIR: I do not think so. Let us put it this way: They cannot get money because the man was a rogue or a bad actor or was not able to attract partners.

COMMISSIONER GIBSON: It is a matter of judgment, I suppose.

MR. SINCLAIR: Yes, it is a matter of judgment and it is terribly dependent on personality. A man may come into me and I might take a dislike to his face. He might get his point across to somebody else.

THE CHAIRMAN: There are a number of other companies doing somewhat similar business to yours, are there?

MR. SINCLAIR: I have listed a number.

THE CHAIRMAN: I saw that list. I suppose each one may have somewhat different emphasis as to their objectives but generally speaking they are equipped to finance small business in one way or another?

MR. SINCLAIR: In one way or another and I think with different policy limits, different methods. Some want some advantage but the ones I have knowledge of are all willing to

invest in unlisted private companies of one kind or another.

THE CHAIRMAN: I am not asking you about who they are because you may not wish to state that.

MR. SINCLAIR: Well, certainly the sponsorship of some of them is unusually fine with sophisticated and reputable people behind them.

COMMISSIONER BROWN: I gather from what you say some of these that you have turned down have turned out successfully?

MR. SINCLAIR: Yes.

COMMISSIONER BROWN: You will agree that there is no automatic criteria by which you can measure a small business and gauge its sucess?

MR. SINCLAIR: Our attitude to these things I must admit is we look almost not at all to fixed assets: We look but not too carefully at the financial history. Our entire emphasis and approach to a man who walks in the door is his own ability and the abilities of the team he has got with him. It happens that our philosophy is built entirely around people. Other people would perhaps take a much closer look at the financial end, the inventory in the case of fixed assets and goods etcetera. Again this is a matter of policy.

COMMISSIONER BROWN: Your emphasis is on management?

MR. SINCLAIR: Not weak management but our primary reason for investment.

COMMISSIONER GIBSON: One of the things I find puzzling is that there are so many in this list that you give of firms which are controlled abroad. There are relatively few Canadian owned or fully Canadian owned organizations. Does that mean that there are a lot of opportunities in this field that attract people to this country? You have suggested this in making comments and also the fact that it looks like two-thirds of these companies would be controlled abroad.

MR. SINCLAIR: When I submitted my draft to my directors I included a list of nine companies that had found the going pretty tough and I was advised to leave that as I might be stepping on somebody's toes. This is an off the cuff list and a quarter of the people who have entered this game have given up the ghost.

THE CHAIRMAN: Were they Canadian companies?

MR. SINCLAIR: Some were and some were not, sir.

COMMISSIONER GIBSON: Is there any tax advantage for an external company coming into this field as opposed to a company owned and organized in Canada?

MR. SINCLAIR: I do not know, I do not think so. We have none. I think it depends on your election when you start in business.

COMMISSIONER GIBSON: Would you regard this quite large number of externally owned concerns as reflecting the marked enthusiasm about Canada which prevailed from, let us say, shortly after the war until a few years ago?

MR. SINCLAIR: I would think that is a very fine statement, sir.

COMMISSIONER GIBSON: And that you are further suggesting that their enthusiasm has not been in all cases fully justified?

MR. SINCLAIR: I think the thing is very much tougher than they ever imagined it would be. I think if we were to be honest I think we would have to say we have found the same thing ourselves.

COMMISSIONER GIBSON: You have said a word or two about the I.D.B. and your views about it and towards it. What about these provincial efforts to assist small businesses - development funds, etcetera, do you work in with them at all?

MR. SINCLAIR: We have never, by chance, worked directly with them but we are in contact with them and our function is purely complementary. We tend not to be competitive with them at all.

COMMISSIONER GIBSON: Do you find yourself supporting the same firms occasionally?

MR. SINCLAIR: We never have in the past. There is no reason why we should not.

THE CHAIRMAN: Thank you very much, Mr.

Sinclair.

We will adjourn now until two o'clock this afternoon.

--- Adjournment.

--- On resuming at 2.00 P.M.

THE CHAIRMAN: We shall now resume.

SUBMISSION OF THE ONTARIO SECURITIES COMMISSION

APPEARANCES

Mr. O.E. Lennox, Q.C. - Chairman
Mr. W.M. Duggan - Registrar

MR. LENNOX: Mr. Chairman and members of the Commission, the Ontario Securities Commission is very pleased to have the opportunity to enlarge on our brief. If you would give us some direction as to what procedure should be followed, I thought possibly more would be gained by questions from the Commission rather than any lengthy statement.

THE CHAIRMAN: We have all read the brief, so it is not necessary, unless you wish to do so, to read it verbatim. It may be, if you prefer it, we will proceed with the questions.

MR. LENNOX: Well, I have a very short statement which will only take a few minutes.

THE CHAIRMAN: Very well, we will proceed with that.

MR. LENNOX: Since adequate Securities Legislation was enacted in 1947, under the able administration of the Honourable Charles P. McTague, the Ontario Commission, as it is presently constituted, has made every effort to improve conditions under the powers vested in it by statute.

The first major step was the publication of a Monthly Bulletin, commencing in January, 1949, in which details of issues accepted for filing are published, together with decisions issued when disciplinary action is taken.

I also might add there that we also give reasons for rejecting a filing if necessary, but a majority of the filings are not actually rejected; they are simply abandoned. Since January, 1949, over two hundred of these decisions have been published. The Bulletin is sent to every broker and dealer registered in Ontario, and to all Provincial Administrators.

In 1951, meetings of Provincial Administrators were revived, after a lapse of many years, by a meeting held in Toronto in November, 1951. At this meeting, Ontario submitted policies designed to govern fair and equitable corporate financing. These policies were submitted after a full discussion with representatives of the organized securities industry, who offered many constructive suggestions. As far as can be determined, these policies have been adopted throughout Canada, with possible minor adjustments to suit local situations.

In 1952, after prolonged negotiations, the United States short form of registration was extended to Canadian issues. In 1954, Ontario abandoned this form of registration, and again made offerings in the United States in violation of their securities laws, as the experiment was found to be impractical.

In 1955, Ontario, for the first time, retained a Technical Consultant, on a part time basis, to review

reports on mining properties submitted pursuant to the requirements of Section 38 of the Act.

In 1956, the demerit system was introduced, i.e. imposing technical suspensions for minor infractions, but leaving the registrant free to carry on business. These suspensions have been a factor in taking subsequent disciplinary action.

In 1959, the Commission refused to accept Stock Exchanges as recognized Stock Exchanges, within the meaning of the Act, located in jurisdictions which did not exempt trading by way of primary distribution on a Stock Exchange.

In 1960, a Guide to Mining Engineers, submitting reports for filing, was issued under the direction of Dr. Frohberg, our Technical Consultant.

In March, 1961, a Regulation was passed requiring underwriters and optionees to be registered.

In April, 1961, a Directive was issued restricting the use, in promotional literature, of technical information and opinions respecting mining properties. That is, they have to identify the source of that technical information.

In November, 1961, a meeting of distributors of mutual funds was held in Toronto for the purpose of forming an association in the best interests of those engaged in this form of financing.

A second attempt was made, in March, 1961, to meet the requirements of the United States securities laws. Within the last week or ten days, two Ontario mining issues have now been accepted by the Securities and Exchange Commission in Washington.

General: The co-operation of the three

branches of the organized industry has been most satisfactory. The Investment Dealers, particularly, have shown a true spirit of co-operation. Our relations with the Stock Exchange have improved over the years to a point we now operate as an efficient team. The Broker-Dealers' Association, who have many members engaged in the promotion of highly speculative issues, of course present many varied problems. However, the Board of Governors, for the past several years, have also shown a spirit of true co-operation in face of difficulties, and demonstrated their courage and good faith by the Directive issued in March, 1961.

The value of annual Provincial Conferences should not be discounted. Ontario, as a centre of wide distribution, is probably in a better position to judge the value of these Conferences than an Administrator in a jurisdiction in which there is very little public financing. Ontario, as a centre of distribution, receives a steady flow of enquiries from other Administrators, as a result of topics discussed at these Conferences. Uniformity of policies have resulted, as already noted. In the opinion of the Ontario Commission, these Conferences have been a definite factor in the trend towards uniform Securities Legislation. It was recently announced in the press that British Columbia was about to adopt the Ontario Act. There are indications that other Provinces are thinking in terms of new Legislation, or at least what type of Legislation would be enacted if confronted with a serious problem. Overall, any discussions by people of average intelligence and even temperament, with similar

objectives, should create better conditions in any line of endeavour. This has certainly been accomplished, as a result of the meetings held by Provincial Securities Administrators for the past eleven years.

Lastly, Ontario has steadfastly refused to grant registration to part time salesmen, and so has avoided a situation which is admittedly a serious problem in the United States.

THE CHAIRMAN: Thank you.

COMMISSIONER LEMAN: Mr. Lennox, as I understand it, the basis of control over prospectuses for issue of securities in Ontario is a concept of a full disclosure, isn't it?

MR. LENNOX: That is correct.

COMMISSIONER LEMAN: The full disclosure is not defined in the Act, is it?

MR. LENNOX: No, but it has to be related to the requirements in the Act -- the questions are prescribed by Sections 38, 39 and 40 as to what facts should be disclosed as to mining issues, industrial issues and investment issues.

COMMISSIONER LEMAN: If we look at Sections 38, 39 and 40, and taking 39, for instance, I believe it applies to industrial companies, doesn't it?

MR. LENNOX: That is correct.

COMMISSIONER LEMAN: Would the Commission consider that there has been full disclosure provided all the various 35 items are covered by answers in the prospectus? There is, for instance, paragraph 3 that talks about the general nature of the business

actually transacted or to be transacted by the company; in other words, there doesn't seem to be very much required in the way of description of the enterprise itself, its position in the competitive market, or a real description of the company. When a prospectus is deposited do you criticize it from that point of view, or do you just check to see if the 35 items have got answers in the prospectus?

MR. LENNOX: I think Mr. Duggan, the Registrar, should answer that because he is the person directly and immediately responsible for dealing with that.

COMMISSIONER LEMAN: Do you criticize the prospectus from the point of view of, is it a well drawn up prospectus, or do you just check to see if the 35 items have been answered?

MR. DUGGAN: The answer to your question is that it is quite possible for all 35 questions to be answered in a prospectus and yet that prospectus does not make the full, plain and true disclosure which is set out in the certificate at the end; specifically Clause 35 -- that must be signed by each of the directors of the company as at the date of the prospectus, and also a similar certificate signed by the underwriter, if any.

You will notice in Clause 33, one of the 35, there is a clause I refer to as the basket clause which requires disclosure of any other material facts not disclosed in the foregoing.

To answer your specific question, you referred to Clause 3 -- the general nature of the

business actually transacted or to be transacted: That is usually fully disclosed by the corporation officers or the underwriters, but the Commission is possibly more interested in the use that the funds are going to be put to. We have seen large corporations raising $10 million or $15 million in which they have stated it will be used "for general corporate purposes". I think it is a good illustration of your point if I tell you that the Commission do never accept the bare "general corporate purposes". We ask them to expand, to enlarge -- not just so that the Commission knows the answer, but so that the member of the public, the investor, who has this prospectus placed in his hands can understand from this plain and full disclosure what the corporate venture is to be. We do not just tick off the 35 questions and say that they have answered them and therefore it is passed; absolutely not.

COMMISSIONER LEMAN: Do you go over the prospectus completely, and do you have one person who does this, or do you have specialists who will go over the financial statements part of the prospectus, and someone else will go over different areas?

MR. DUGGAN: The answer to that is that there are specialists in this way: The prospectus is reviewed by the chief auditor, a chartered accountant, or his assistant, a general public accountant, and they not only check the accuracy of the financial statements but they read the prospectus from the viewpoint of the information they glean through the analysis of the financial statements. While that is taking place another person,

usually myself, with legal training -- I am approaching the prospectus on the full and plain disclosure, and we get together and compare notes and until both the audit section and the registry are satisfied, that prospectus is not accepted. So, it is not a case of just one man passing this prospectus. If there are any contentious points they are referred informally to the Commission chairman, usually by myself.

COMMISSIONER LEMAN: As I understand it, the general guide in the S.E.C. so far as prospectuses are concerned is that a prospectus should contain all the information that a prudent investor should get before he invests. We recognize that is not a particularly precise concept either ---

MR. DUGGAN: Unless they have a definition of "a prudent investor".

COMMISSIONER LEMAN: But is that normally your same approach -- would you think that is a guide in so far as it can guide anyone?

MR. DUGGAN: It is one of the guides that would be used, and that is why emphasis is placed on the word "plain" as well as "full and true".

COMMISSIONER LEMAN: Turning to another field of your jurisdiction -- and by the way in the very first paragraph of the summary of your brief you state that the records covering investigations, disciplinary action and prosecutions etc., are extensive but are not pertinent to the inquiry of banking and finance: Would you be prepared to say, "except as an indication of the scope of the problem", perhaps?

MR. LENNOX: Yes, but we felt we were rather restricted in the length of our brief -- we were instructed to limit it to 1200 words. However, Mr. Duggan has with him here our annual reports that give all that detail, and it will show our prosecutions under the Criminal Code and the Act as well have been extremely heavy and extensive in the last few years, involving international operations. We could file copies of these reports that have been tabled in the Legislature, if it would be of any assistance. It probably gives a better picture of our actual day-to-day working conditions than the brief itself.

COMMISSIONER LEMAN: Well, there is a great deal of discussion about the wisdom of having a Federal Commission etc.;: I don't know what the Chairman would suggest, but perhaps instead of filing 25 copies it may be useful if you let the secretary of the Commission have this.

THE CHAIRMAN: Well, these are copies of statements that have been tabled with the Legislature?

MR. LENNOX: Yes, as an annual report.

THE CHAIRMAN: Is it printed?

MR. LENNOX: I believe they are.

THE CHAIRMAN: Well, at any rate, you could let us have a dozen copies, if that is convenient?

MR. LENNOX: Yes.

COMMISSIONER LEMAN: Turning to the industry as such in Ontario, how about the registration procedures for brokers, dealers, salesmen etc. : What sort of information do you require from them before they are licensed?

MR. LENNOX: The forms they have to fill out are published in the Act, which are very extensive forms, and I believe the Ontario forms have been copied by most of the provinces; and then an applicant for registration as a member is questioned by Mr. Knox-Leat, the Assistant Registrar, and applicants for registration as salesmen are questioned by Mr. McCurrie, who handles salesmen registrations which are very extensive. If there is any doubt about it, the applications come before me and I refuse many applications, not on the ground I have made up my mind the person is not suitable, but I think if there is any question the responsibility should rest with the Commission as a whole and not with a single Commissioner, and I have turned down applications and then sat with the full Commission and, at the end of the hearing, have been in favour of granting the application. It is not an appeal. It is a review, bringing the thing out in the open.

COMMISSIONER LEMAN: Legally there is no appeal from Commission decisions.

MR. LENNOX: Oh, yes. There is appeal to the Justices of Appeal of the Supreme Court of Ontario. Chief Justice Porter would probably be hearing some of those if he was not engaged on this work now.

THE CHAIRMAN: Haven't had one yet.

COMMISSIONER LEMAN: In the matter of licensing.

MR. LENNOX: Yes, under section 29 any refusal of the right to trade in securities can go right through to the Supreme Court.

COMMISSIONER LEMAN: You refer in your brief a few times to the relationship of your Commission to other commissions, and especially to the commissions down in the United States. You give a little bit of history, not complete. Has there ever been consideration of a requirement that any Canadian resident before trying to push securities, say, in the United States market, would have to file something with you here?

MR. LENNOX: Oh, definitely. You speak about the relationships with the Federal Securities Commission of the United States. I have just returned on Friday from a meeting down there. I have been a member of the liaison committee there for years, and I might say that my reception was very favourable this year, much improved from former years in many ways.

We will not permit a person not registered with our Commission to trade in the United States, because he is trading from Ontario and he would be trading without registration.

The issues that have been the cause of complaint in the United States are issues that are being fully qualified with our Commission and being offered by people registered with our Commission, particularly broker-dealers engaged mostly in the promotional field.

But any offering in the United States, any offering from Ontario, within Ontario or outside Ontario, is illegal unless the person is duly registered and the issue he is offering is duly qualified.

COMMISSIONER LEMAN: Have the United States authorities in cases tried to get you to prosecute here in Canada under some infraction in their territory?

MR. LENNOX: Not in cases, but when the offering is perfectly legal in Ontario - I mean Section 53 of the Act is almost an invitation to trade outside Ontario because it says:

> "No person shall call at any residence or telephone from within Ontario to any residence within or outside of Ontario".

Well, if they had not referred to "outside Ontario" in that particular piece of legislation, some of our broker-dealers would have argued there is no

mention of telephoning outside Ontario so it is perfectly legal. So the section had to be framed in that manner.

COMMISSIONER LEMAN: That is not exactly what I meant to ask you, Mr. Lennox. What I meant was this. The United States authorities in order to protect their public, have they at times requested you to prosecute people here in Ontario because of infractions in their territory?

MR. LENNOX: I cannot recall a case where they have actually requested us to do that. Of course they are free to exercise their rights under the amendment to the Extradition Treaty if their first attempt failed, but since that amendment to the Extradition Treaty, which was supposed to work from north to south, we have been successful in making it work for the first time from the south to the north.

COMMISSIONER LEMAN: Conversely, have you tried to use them to protect the Ontario public from operators in the States?

MR. LENNOX: I do not think there is anything specific, but there is very close co-operation in that way. For instance, one dealer and promoter that got into difficulty in Ontario, moved down to Nassau, opened up a sort of branch down in Nassau and from Nassau was making offerings in the United States. I think the United States postal authorities will mark mail addressed to that distributor in Nassau as "fraudulent", and

just the way that they operated against Canadians in Ontario issues.

There has been a very major change in the whole picture since 1960 in Ontario and the rest of Canada. I think it was brought to a head by the promotions in New Brunswick,St. Stephen's Lead, and this operation by a man named Gregory. Quebec drove Gregory out of their province. The situation was so bad that the United States adopted this policy of marking mail addressed to these offenders, offenders against their laws, as "fraudulent" and returning it to the sender. So therefore all money orders, postal orders and cheques failed to reach the distributor. This went on for some time and it was applied to Ontario also, and that is when the broker-dealers with a certain amount of urging from Toronto Stock Exchange, issued a directive to its members that as of 28th March 1961 their members were not to make an offering outside of Ontario unless they had fully complied with the laws of the jurisdiction in which the offering was being made.

So that the whole pattern has changed, and we are no longer bothered with transients moving from jurisdiction to jurisdiction. We could effectively control the situation, but the United States postal authorities, working with the Securities and Exchange Commission, has taken that step, and now our brokers and dealers are doing their best to qualify our Ontario mining issues in

the United States.

COMMISSIONER LEMAN: Mr. Lennox, I understand this, but we are talking mostly about preventive measures here. This business of marking the mail "fraudulent" and returning it to sender, etcetera, are measures to protect the public before the damage is done, so to speak. What about prosecutions after the fact? How do you operate with foreign jurisdictions in this field? You have mentioned the name there, a Mr. Gregory, and you say the Province of Quebec was able to chase him out of Quebec.

MR. LENNOX: To New Brunswick.

COMMISSIONER LEMAN: All right, but could they not have even chased him to jail instead?

MR. LENNOX: Well, yes, Quebec did not let it drop there. They pursued the matter and they brought Gregory to trial eventually, and then I think he moved on to Switzerland or some other European spot.

COMMISSIONER LEMAN: Now, I would just like to ask you one more question. Your brief in effect suggests, rather recommends against a federal institution, and one of the points you make is that it is premature. What basically are your objections? Do you think it would do harm or what is it then?

MR. LENNOX: Well, when I joined the Civil Service about 33 years ago, my first work

was in the Bankruptcy Court. Then bankruptcy came under a federal tribunal, administrative tribunal, and just the other day I saw in the press the very damaging article to the effect that the federal tribunal did not seem to cure the difficulties encountered in the administration of the bankruptcy laws.

In another way I am thinking of the taxpayer. They have a federal commission in the United States I suppose, with 200 million people. We have got less than 18 million people. The trend seems to be of duplication. I think that our troubles in the securities field are largely local.

For instance, if you take Prince Edward Island I have never heard of even a suggeestion of fraud in the last 14 years stemming from this province, and I am willing to be convinced that it really accomplished something. I mean, I am not personally interested in it one way or the other, because I have only got about 18 months to go.

COMMISSIONER LEMAN: But sometimes, you know, there is a question of semantics. People express themselves rather loosely and say: "Is there a need for a S.E.C. in Canada?". I am not suggesting that Canada should copy the S.E.C. word for word, that is not the suggestion. I am just talking about the principle as such of a federal commission rather than ten provincial ones.

MR. LENNOX: Well, I am trying to see the advantages of it. There have been great strides made, I don't care what anybody else says, because after all Ontario and Quebec are big distributive centers and we work very closely together and understand each other and our problems, and the uniformity in Canada in the last ten years or more has been very substantial. I think as you travel east you will find that out.

I am sorry, Alberta, they have got an excellent commissioner out there but, I am sorry, I don't think he was hurt. I think he would endorse everything that Ontario says about the co-operation and uniformity of policies.

COMMISSIONER LEMAN: You certainly were thinking of the taxpayer. Does it necessarily follow that overall a federal commission would cost more than ten provincial ones?

MR. LENNOX: Well, that is my reaction. Possibly I am not qualified in that field.

COMMISSIONER LEMAN: Well, there still are more areas of uniformity that are not absolutely perfect, but would you say that the regional differences, the facts that one province has a lot of oil and in another province it is the soil, and anotherprovince has minerals, etcetera, that that makes it desirable to have different commissions? Is that one point?

MR. LENNOX: No, my general idea is that it is more or less a local problem. Newfoundland,

for instance, has not any problem, although their administrator has religiously attended provincial conferences to know what problems he might meet. On the other hand you can hardly compare the volume of financing and the number of persons registered to trade in Ontario with the situation such as in Nova Scotia.

I think that Nova Scotia is on the alert, very much on the alert, that if they were confronted with an invasion such as New Brunswick experienced, that they would very promptly prepare themselves to meet the situation.

COMMISSIONER BROWN: There is a complete exchange of names of malefactors between all the commissions? Do you send out a circular that somebody is suspended here, to all the other commissions?

MR. LENNOX: We undertook at the conference in New Brunswick in 1958, I think it was, that any disciplinary action that was taken by the Commission, the information would be relayed to the other jurisdictions.

Now, Ontario, of course, publishes a bulletin, and the disciplinary action that we take is published in that bulletin.

Alberta has religiously lived up to the undertaking or understanding. Mr. Duggan reminds me he received a letter from Alberta this morning with reference to this action.

COMMISSIONER LEMAN: I had an experience

once. I had to complain about someone - with due deference to the Commissioner at the other end of the table - who was operating from Nova Scotia, and the only way I could feel I could try to get more information and have the authorities take interest in this person, was by going to the Quebec Securities Commission. All I got as an answer after two or three weeks, was that they could not do anything, that this fellow was in Nova Scotia and they had just sent a copy of my letter to the Nova Scotia authorities. I never heard anything more about it. Yet I knew for a fact from intimate knowledge that this fellow was doing a fraudulent solicitation not only in Quebec but also in the U.S.

MR. DUGGAN: You mentioned "some time ago". Would it be proper to ask you approximately how long ago?

COMMISSIONER LEMAN: I would say three years ago, I think. You may have heard of this case but I do not claim any particular experience in the field. I am just asking if you feel that this matter of borders between provinces is completely solved or do you think there is a great deal of improvement that should still come about?

MR. LENNOX: Mr. Duggan has just pointed out that Quebec warned the Maritimes extensively about Gregory, their experience with Gregory, and as far as New Brunswick are concerned they had an administrator there who had practically no staff.

I don't know if he had any staff except a stenographer. Besides that he had other duties. He was the Public Utilities Commissioner and everything else. It was an impossible situation.

There is always a human element in it. I mean, there are administrators and administrators, and I think that would apply equally whether they were employed by the Dominion government or provincial government.

I rather gathered that you feel that while there are some disadvantages to primary distribution dealing with the stock exchange that this probably overweighs the disadvantages of having it done outside the stock exchange.

MR. LENNOX: I think that points up the local situation. I would be very glad indeed if the Toronto Stock Exchange was purely a secondary market, just a market between people who want to sell and people who want to buy. But when new legislation was introduced in Ontario, that is, going back to 1945 - and I believe there were some regulations before that - Ontario was faced with a very serious situation and I think they chose the lesser of two evils, either to throw this distribution to the wolves --

COMMISSIONER BROWN: Or leave it with the wolverines?

MR. LENNOX: Yes. It was an exceptionally bad situation because people in the United States were talking in terms of fraudulent Canadian issues and yet the ringleaders in many cases that were teaching our boys, the bad ones were from the United States. They drifted out of the United States when the United States passed their Federal Securities Act in 1933.

During the war years and after the war years I came into the Commission in the summer of 1948 and there were a lot of these New York citizens in Ontario who had absolutely ignored the provisions

of our Act and section 14 that they must establish a residence in Ontario and the excuse was that they could not get accommodation because of the shortage of accommodation following the war.

We have rid ourselves of most of these characters. That was just one aspect of the situation that developed in Ontario. It was the lesser of two evils. I hope that some day the problem may be solved but I just wonder whether we are ready for the solution. It is absolutely all right in the case of industrial companies.

COMMISSIONER BROWN: You do not think you would have more control over the underwriters' profit if he were able to distribute only on the basis of a prospectus at a maximum price?

MR. LENNOX: That is one of the biggest complaints stemming from the United States, that there is no market for these unlisted issues.

COMMISSIONER BROWN: I am talking about primary distribution of unlisted mining stocks.

MR. LENNOX: But across the border they do not seem to distinguish between the offering price and the market price. A dealer who offers stock at 30 cents in the United States, they think that is the market and the salesman over the long distance telephone - which is one of the worst instruments of trade I know of - will create that impression for all he is worth, that this offering price he is stating is actually the market price.

COMMISSIONER BROWN: How about distribution in Canada?

MR. LENNOX: Well, in Canada, or Ontario at least, I think the speculator is much more sophisticated than our friends across the border.

COMMISSIONER BROWN: Well, again what would be the disadvantage of insisting on the stock exchange acting only as a secondary market and that all primary distribution be done off the market under your control? I bring this up because there have been suggestions elsewhere that this is a bad thing, primary distribution through the stock exchange.

MR. LENNOX: Oh, I am fully aware of that but I think under system conditions that a change might now be more prejudicial to the investing public.

COMMISSIONER BROWN: I was more interested in your analysis of what those disadvantages might be.

MR. LENNOX: Mentioning the exchange, it is rather strange that so much criticism comes up now because in the last three or four years the Exchange has done far more than in any other period of its history to improve conditions. For instance, I was reading in the press, the Globe and Mail, this morning about Mr. Cameron from Saunders and Cameron and speculating and [illegible] is like any other things; you have got [illegible]. You ought to take advantage of all

the information you can get. For instance, the Exchange in recent years have insisted on a filing statement when there is any material change and any speculator or investor can go to his broker and see that filing statement and then have very up-to-date information. They won't do that in every case but they are so prone to listen to street gossip but they can get far more information about a listed stock now than they ever did before.

COMMISSIONER BROWN: Well, I do not want to fog this but I still want to get your analysis of the disadvantages of having this primary distribution done other than through the Stock Exchange?

MR. LENNOX: Well, for one thing, if the move was made, I would like it to be made at a time where the promotional houses had improved their ethics and standards of trading. We have made vast steps in that direction. At one time there were 212 broker-dealers registered in Ontario and now there are roughly 81 members of Broker-Dealers Association. That all goes to better trading and it is the survival of the fittest and in that situation are people that have customers, people to trade with and they are not selling just according to a list taken out of the telephone book or sold as a sucker list in the United States.

COMMISSIONER LEMAN: Well, what are the

flags put up when a company listed on the Exchange involves in primary distribution? Would there be some merit in putting them on a special list during the period of distribution or that sort of thing?

MR. LENNOX: That is why I mentioned the filing statement. An investor or speculator who deals with a broker of his own choice can look at the filing statement and right away know whether there is primary distribution, as to whether there is an underwriting option and all that sort of thing.

It is like anything else; if he wants to play golf he gets somebody to instruct him to play golf. When he goes to the broker why doesn't he ask the broker to show him the information that is available for him?

THE CHAIRMAN: Thank you very much, Mr. Lennox.

MR. LENNOX: Thank you, sir.

THE CHAIRMAN: The hearings of the Commission in Toronto have now been concluded. We will adjourn the meeting of the Commission until May 10th at 9:15 in the morning in Montreal.

--- Adjournment.

2

Royal Commission on Banking and Finance

Hearings held at Toronto

Vol. 13A

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SUBMISSION

to the

ROYAL COMMISSION ON FINANCE

by the

CANADIAN SMALL & INDEPENDENT BUSINESS FEDERATION

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The Canadian Small and Independent Business Federation is confident that small business will continue to play its major role in the orderly development of the Canadian economy in the years ahead, but feels there will be an impelling need to facilitate the flow of funds to small business at reasonable rates, as it continues to grow. Some continuing trends in the financial area and in the capital market the Federation regards as not conducive to the well-paced development of secondary industry. Based as it is on individual initiative and largely on investment by individuals, small business views with concern the trend towards the institutionalization of saving. This arises from the growing practice of directing personal savings - limited as they are by high income tax rates - to financial institutions through the purchase of insurance policies, investment certificates, pension fund rights and the like. Though a growing number of financial institutions are helping in the development and stability of small business, many still are limited either by government restriction, or by the conservativism that has allowed much of Canada's economic expansion to be financed with foreign capital. A drain on the funds available from individuals also occurs, and is growing, from the immense increase in consumer credit buying during the past few years.

PROPOSALS:

Over the years, the plaint of small business has been the lack of availability of equity capital. A recurring reply has been that if the market is worth exploring, private enterprise is resourceful enough to search it out. The Federation contends this is not always the case. The immense variety of small business necessitates individual study, and enhances the lack of knowledge of the investor concerning the particular opportunity for investment, as well as reinforcing the conservative attitude of dealing only with the known.

Nevertheless, there is a growing number of private development banks or companies, which are profiting from assistance to small business. The Industrial Development Bank, which at one time barely earned interest while paying no income tax, has doubled its lending with an accompanying increase in cost of only approximately 30 per cent,

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and a resultant increase in profit. The Federation feels that the functions of the private and government enterprises could be combined and operate at a profit. Therefore:

1. The Federation proposes that the Industrial Development Bank be empowered to match funds of small business investment companies to provide equity and risk capital for the maintenance of existing small business firms and the establishment of new industry.

The IDB could work in similar manner with business credit unions, such as that operated by the Canadian Small and Independent Business Federation. The Federation contends that risk capital is still available in this country, and that as the speculative opportunities in mining decrease, the opportunities will grow in ventures of this nature.

The main source of equity funds for small business has been the individual, the entrepreneur himself. But the main source of credit has been the commercial bank. The extent of this credit cannot be measured or detailed however, as banks are not required to publish their portfolios and details of the extent of credit to various sectors of the economy are only available in periodic estimates by the Bank of Canada. This lack of information has been termed "incredible" by several Canadian economists.

2. The Federation proposes that banks be required to give a breakdown on their portfolios, and in addition to this public information, provide details privately to government.

The Federation feels that as financial institutions of such importance to the country, and in such public trust, the banks would be better able to demonstrate that profit alone is not the main consideration in carrying out their important function.

It is suggested that the availability of bank credit, important as it is to small business, is limited at present by the ceiling on interest rates. The banks, naturally, tend to make the safest possible loans.

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3. The Federation proposes that the ceiling on bank loan charges be eliminated or greatly increased.

Given more leeway, the Federation feels that the rate on loans would be more responsive to the wide field of demand and to the availability of money.

Similar facility could be afforded other financial institutions such as insurance companies. Subsequently:

4. The Federation proposes that the Commission seek means by which more flexible rates of interest be paid on institutional deposits with a widening in scope of areas where they may invest.

Small corporations and unincorporated companies have seldom been able to acquire funds through bond issues. Even firms whose gross receipts are $500,000 or more annually are not large enough to get money by public market issue through the banks or at a reasonable rate from other institutions. And the costs of such issues are prohibitive. Unincorporated companies do not have the alternative of stock issues, while for small corporations, there is no chance to take advantage of the tax benefits of bond issues. Interest on such debts is deductible for income tax purposes, while payment of dividends are not regarded in the same manner and can not be deducted as an expense. With taxes at 50 per cent, a company needs to earn only $1 before taxes to pay interest of $1 on bonds, while it must earn $2 before taxes to pay a dividend of $1 on shares it has issued. Therefore:

5. The Federation suggests that a means be sought by which small business may tap the bond market.

An immense increase in consumer credit purchasing has taken place in the last few years, largely through credit financing by the chartered banks. It is suggested that the large increase in such financing is due to the apparent inefficacy of high interest rates to discourage such consumer financing; and the apparent intention of the chartered banks to compete, partly through ceilings in other sectors, with private financial organizations for this consumer market. The Federation suggests:

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6. That the Bank of Canada be empowered and instructed to control this form of consumer spending both through chartered banks and other financial institutions; and that

7. Interest rates be published as a deterrent to consumer financing of capital goods.

The Governor of the Bank of Canada has from time to time commented on the willingness of some financial institutions to comply with the wishes of the central bank in such matters. Many subsidiaries of United States financial organizations - such as loan companies - are able to operate in Canada laregely through the book-listing of assets in the United States. Therefore:

8. The Federation proposes that to make finance companies which are subsidiaries of foreign firms more Canadian in their outlook, and more responsive to conditions peculiarly Canadian: That foreign corporations be required to have much larger cash holdings in Canada than at present.

In similar vein:

9. The Federation proposes that trade unions be encouraged to keep their funds in Canada by taxing funds sent abroad, unless the money is sent specifically as strike assistance.

Re-investment of profit continues to be the main source of equity capital to small business, and in this complex field of taxation:

10. The Federation recommends that a Royal Commission on Taxation be suggested by the Commission, and that it be suggested such a commission explore other avenues of revenue from business as used in other countries, with the emphasis on retention of a fair portion of income for investment purposes, and a tax applying more to volume turnover of the like.

In this connection, a second look might be taken at the depreciation allowed large mining companies during their formative years - companies which now are well established and no longer need inducements to compete successfully on world markets.

A number of the members of the Canadian Small and Independent Business Federation are in direct competition with the subsidiaries of foreign countries. In the case of United States subsidiaries, these firms

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often have the backing of a successful and generally larger company in the U.S. In addition, these firms are able to operate at a loss with the loss deductible in the United States for income tax purposes. The American treasury is willing in fact, to subsidize these firms up to 52 per cent of the income of the parent company. This amount is deductible as a loss. The Federation suggests:

11. That steps be studied to overcome the advantages enjoyed by foreign subsidiaries over their Canadian rivals. Along similar lines:

12. The Federation suggests that the commission consider a follow up to the Royal Commission on Publications, imposing inducements to have all television commercials for exhibit in Canada made in Canada.

The Federation feels that there are a number of businesses in the advertising and promotion fields in Canada which suffer from unnecessary competition from foreign subsidiaries, where the latter provides no benefit to the Canadian economy not available from Canadian firms at equal cost.

13. THE FEDERATION PROPOSES THAT:

a) FINANCIAL INSTITUTIONS SUCH AS TRUST COMPANIES, INSURANCE COMPANIES, MUTUAL FUNDS, AND THE LIKE, BE REQUIRED, EITHER BY GOVERNMENT DIRECTIVE OR BY GOVERNMENT PRESSURE, TO HAVE 10 PER CENT OF THEIR PORTFOLIO INVESTED IN BUSINESS WITH A NET WORTH OF LESS THAN A MILLION DOLLARS.

b) THE FEDERATION PROPOSES THAT A TEAM OF CONSULTANTS AND MANAGEMENT EXPERTS WORK WITH THE SMALL BUSINESSES WITH WHICH THE INVESTMENT COMPANIES HAVE PLACED SUCH LOANS OR INVESTMENTS, TO ENSURE THE SECURITY OF THESE FUNDS THROUGH THEIR SUCCESSFUL USE BY SMALL BUSINESS. THE FEDERATION FEELS THAT THIS COMBINATION OF READY FUNDS AND EXPERT ADVICE WOULD FILL THE SMALL BUSINESSMAN'S TWO MOST PRESSING NEEDS: FUNDS FOR LONG TERM OR EQUITY FINANCING AND MANAGERIAL ASSISTANCE.

MOREOVER, AND AS AN ADDITIONAL BENEFIT, THE FEDERATION FEELS MOST STRONGLY THAT THIS MOVE ALONE COULD WIPE OUT CANADA'S UNEMPLOYMENT PROBLEM THROUGH A SUBSTANTIAL INCREASE IN THE NUMBER OF PEOPLE EMPLOYED BY THIS COUNTRY'S PROFESSIONAL AND INDEPENDENT BUSINESSMEN.

SUMMARY

The growth of business is closely related to the availability of capital, be it internally generated or externally procured. It is the view of this submission that the development of growing, smaller businesses in Canada may be handicapped by a deficiency in the capital market to provide long term debt and equity capital to small business in sufficient quantity and at reasonable terms.

In analyzing the present sources of capital and in trying to assess the needs of small business for such capital, one must always fall back on assumptions or use data compiled in other countries as there is a serious void in statistical sources covering small business activities and knowledge of the relationships of various segments of the capital market towards small business. It is virtually impossible under these circumstances to state intelligently the needs of small business and suggests how, in the light of clearly discernible needs, changes can be brought about in the capital market to meet the needs. The first and utmost requirement then amounts to a plea for more information and analysis of this problem so that whatever remedial action is required can be taken intelligently.

If one assumes that there is a void in the capital market insofar as long term debt and equity capital availability for small business is concerned, then the experience of other countries dealing with the same problem should be studied. The most pertinent experiment in small business finance has occurred in the United States recently with the introduction of legislation which created a large number of Small Business Investment Companies. Canada should be able to learn and gain from this experiment insofar as both the benefits and shortcomings of this legislation are now becoming apparent.

In helping small business, it is the stated objective of this submission to insure that growing successful businesses and promising, serious new enterprises have access to long term capital. It

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is not the intention to seek financial help which by its very nature would tend to subsidize all small ventures and insure the survival of marginal or uncompetitive businesses. It is more important now than ever before to make sure that Canadian industry and commerce be competitive at all size levels. In order to encourage the sound, growing small or new enterprise, sufficient capital should be available on reasonable terms. A two-prong approach is suggested:

1) In order to increase internal cash generation, the lower rate of corporate income tax which is now applicable on the first $35,000 could be applied on a larger amount, say $50,000. In view of the recent changes in the Income Tax Act with respect to associated companies which eliminate certain past abuses, and which presuppose closer scrutiny of this avenue of tax avoidance, this change would increase internal sources of capital without creating an undesirable tax shelter.

2) In order to increase external sources of capital for small business, legislation should be considered which would bring about the formation of a new class of investment company devoted to investments in small business. Such an investment company, operating under charter of a federal authority, would have the right to borrow from a new crown corporation, which would loan funds up to a prescribed ratio of the investment company's paid-in capital and surplus. Secondly, such an investment company, in view of certain risks it would be bound to take, should have the rights to apply any capital losses against any taxable income over a specified period of time.

It is also recommended that the new crown corporation would assume direction of all government activities in the small business field and would logically be responsible to the Department of Trade and Commerce. The crown corporation should, therefore, take responsibility towards not only the proposed investment companies, but also the Industrial Development Bank. As this bank is a

promotor of industrial activity rather than a tool of monetary policy, such a realignment seems appropriate. The new crown corporation should also be active in non-financial assistance to small business; namely it should assume an educational and informational role, stimulating greater awareness in small business management of the breadth of skills required by management in to-day's highly competitive industrial environment.

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1. This brief being concerned with the limited sources of long term debt and equity financing for small business in Canada will analyze present sources of such capital and consider potential remedies to overcome the apparent deficiencies.

2. In the first instance what is meant by small business? Small business was defined a year ago by the Small Businesses Loans Act as business with gross revenue less than $250,000. This concept of smallness is a confining one. An American definition of small business is provided by the Small Business Administration for the purposes of Small Business Investment Companies and consists of three qualifications: 1) Assets under $5,000,000., 2) Average after tax income of less than $250,000 for last two years, and 3) Net worth under $2,500,000. This definition allows for broader scope than the Canadian definition.

3. This brief's quantitative definition of small business[1.] is aimed well above the Small Businesses Loans Act's definition, and somewhat below the U.S. Small Business Administration definition. In considering small business qualitatively, particularly at the secondary manufacturing level, it is not the purpose of this brief to concern itself with and recommend support for stagnating small business or uncompetitive small business. It is rather hoped that established, smaller businesses which are growing rapidly, businesses which, using Rostow's stages of economic growth analysis, are passing through the "take-off" stage, are not hampered in their growth by lack of long term debt or equity capital; and secondly that soundly conceived new ventures, with good prospects of success and growth, can be launched with sufficient long term capital.

4. The dynamics of an economy stem not only from large scale capital investment programs such as have been witnessed recently in Canada in the development of the St. Lawrence Seaway and Power Project or the natural gas distribution industry, but also

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from the aggregate effect of small businesses growing. It is important to the well being of the economy that small growing businesses are not hampered by a lack of long term capital, and that sound new business opportunities find adequate sources of long term capital.

5. Canada's capital market offers certain sources of long term debt and equity capital to small businesses. Little, if any, statistical data is available on any of the sources outlined below:

Present sources of long term debt and equity capital

Sources of long term debt and equity financing for small business may be classified as follows:

6. (1) Individuals. Officers and directors, as individuals, are a dominant source of equity and debt capital for small business. Small business in its formative stage is largely the enterpreneurial endeavour of one or a limited number of individuals, who through their pooling of savings, supply the original capital for the venture. At the same time such a group may solicit savings of other individuals known to them. This vital source of venture capital is probably diminishing in importance as progressive income taxation and estate taxation tend to discourage the accumulation of personal wealth. No statistics are available on the role individuals play as a source of long term capital to new and small business and it is unlikely that this varied source of capital could be studied and documented.

7. (2) Trade Suppliers. Trade suppliers are frequently a source of short and intermediate credit particularly in the distribution and merchandising field. Though no statistical evidence is available, it may be assumed that long term credit or equity funds are not normally available through this channel.

8. (3) Commercial banks. Commercial banks are the basic source

of short and intermediate credit. Their function of providing working capital accommodation is supplemented to a degree by term loans. Canadian banks are not, in the normal course of their business, a source of equity funds. The Canadian banking system issues no data on loans by size of customer, term of loan, or underlying conditions.

9. (4) Finance or acceptance companies. Finance or acceptance companies are a source of intermediate credit, and are used quite heavily in certain businesses for the financing of inventories and indirectly as a sales aid through financing customer purchases. Finance companies are not normally a source of long term credit or equity capital.

10. (5) Institutions as a source of mortgage funds. Small business relies rather more heavily than large business upon long term credit available via mortgages against real estate. This is illustrated by studies in Taxation Statistics referred to later. Mortgage companies and insurance companies would, therefore, via mortgages against real property, be a source of long term capital to small business. No statistical evidence is available from these institutions on loans to small business.

11. (6) Leasing of properties and equipment as a source of funds. The leasing of buildings is a relatively common procedure for small and medium sized business which does not wish or cannot raise capital for the purchase and construction of buildings. The development of property companies and "industrial parks" has probably facilitated this form of financing and has lowered its cost. A long term lease is, therefore, a fairly common source of long term credit for small business.

12. The leasing of equipment is a more recent development, which is presently being accelerated by the entrance of well established acceptance companies into equipment leasing. Equipment leasing

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normally is written over a period of 3-8 years and therefore would be generally equivalent to intermediate credit. No statistics are available on property or equipment leasing as a source of long term debt to small business.

13. (7) Factoring as a source of capital. As with equipment leasing, this is a relatively new source of funds in Canada and inasmuch as factoring steadily carries the receivables of a business, this source of financing can be considered to be short to intermediate in term. In the United States several factoring companies have built up sizeable businesses on the basis of performing not only a financial service by factoring receivables but also by acting as consultants and advisors to their clients in screening customers for credit worthiness, etc. The nature of factoring is such that this should not be considered a source of long term debt financing.

14. (8) Industrial Development Bank. The Industrial Development Bank was founded in 1944 as an adjunct to the Bank of Canada to promote "high and rising levels of employment" and make loans when "credit or other financial resources would not otherwise be available on reasonable terms." The powers of the Bank have been broadened periodically, the most recent expansion being in the Budget delivered in 1961. As opposed to the other sources of capital outlined previously, the activities of the Industrial Development Bank are well documented. Loans at the end of the last fiscal year, September 30, 1961, were about $154,000,000, spread over 2,768 individual loans. Though no details are given on the average term of these loans, the normal practice of the Industrial Development Bank is to grant intermediate term loans, the average maturity being in the order of 3-5 years. The growth of the Industrial Development Bank is a confirmation of the important and needed services which it provides to the Canadian economy.

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Industrial Development Bank loans and commitments outstanding and number of customers (as of September 30th)

	Amount (millions)	No. of customers
1955	$ 52.3	693
1956	76.9	820
1957	88.3	1,022
1958	104.3	1,322
1959	109.3	1,609
1960	120.0	1,967
1961	154.2	2,768

Source: Industrial Development Bank, Annual Reports

15. The average size of loan, during the last three years, has been maintained somewhat in excess of $50,000, and though loans are not classified publicly by size of customer, it may be assumed that loans are made nearly exclusively to a size of business which conforms to this brief's definition.

16. The Industrial Development Bank maintains offices throughout the country and makes its services available near and far from the nation's financial centers. Loans, however, are heavily concentrated in Ontario and Quebec.

Industrial Development Bank. Geographical loan approval distribution

	1960 ($000)	%	1961 ($000)	%
Maritime Provinces	2,772	7.1	5,665	7.9
Quebec	9,398	24.4	16,914	23.8
Ontario	12,388	32.2	25,007	35.1
Manitoba	1,895	4.9	5,433	7.6
Saskatchewan	1,493	3.9	3,133	4.4
Alberta	3,465	9.0	5,990	8.4
B.C.	7,057	18.3	8,907	12.5
Yukon & N.W. Territories	108	0.2	147	0.2
Total	38,576		71,196	

Source: Industrial Development Bank, Annual Report 1961

17. In the first quarter of the Bank's present fiscal year, loans have expanded again and customers exceed 3,000 for the first time.[1]

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1. Bank of Canada, Statistical Summary, January 1962.

18. The present operating procedure of the Industrial Development Bank is such that neither long term debt capital or equity capital is normally provided. In view of its operating history as a mortgage bank, bearing in mind the nature of collateral required for loans, and in view of the policy of a uniform interest rate, the Industrial Development Bank would probably be best limited to its present function as a mortgage bank, leaving the more speculative and difficult to appraise equity financing and 'unsecured' long term borrowing to private enterprise.

19. (9) Provincial development programs. Several provinces, including Newfoundland, New Brunswick, Manitoba and Saskatchewan have made financial aid available to new industries established within their boundaries, often by guaranteeing the debt of such businesses. As such, long term debt was made available to new businesses on a relatively favourable basis. In some instances the businesses so helped were of a size classification beyond this brief's definition. Though this could become an area of some importance, to date Provincial development programs have not been a major source of debt capital in Canada.

20. (10) Private regional development companies. Western Development and Power Limited, a wholly owned subsidiary of the B. C. Power Corporation, was for a time an active financial organization sponsored by the then privately owned electric utility. Western Development financed several new businesses adopting a flexible procedure which took into account all types of debt and equity financing. In a less institutionalized manner other utilities such as International Utilities in Alberta have made capital available to businesses within their service area, this capital largely being in the form of equity.

21. More recently Gatineau Power Company announced that a subsidiary, Gelco Enterprises Ltd., would utilize funds provided by compensation received for Gatineau's New Brunswick system to operate

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[illegible]

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as an investment and development company assisting enterprises in Western Quebec served by Gatineau. The cumulative effect of these various investment companies or divisions is hard to measure but clearly these development companies are making some long term capital available to small businesses within their area.

22. (11) Venture capital companies. There are few venture capital companies, as such, in Canada. Large holding companies like Argus Corp. Ltd. and Power Corp. of Canada Ltd. have on occasion made capital available to small business. Certain mining groups have ventured into smaller businesses, outside of mining. A number of companies exist which to a degree make capital available to small business: Canadian Corporate Management, Charterhouse of Canada, Triarch Corp. and United North Atlantic Securities Ltd., among others. It is hard to judge the impact of these operations, but it is smaller in scope than the activities of U.S. venture capital companies, such as: American Research and Development Corp., Payson & Trask, Rockefeller Bros., J. H. Whitney & Co., Transoceanic-A.O.F.C., etc., the first of which is now a public company with shares listed on the New York Stock Exchange.

23. (12) Investment dealers. Outside of speculative mining and oil issues, Canadian investment dealers seem to shun issues with a gross value of less than $1,000,000.00. Though in the last year there have been more smaller industrial issues brought to market, this activity has been performed often by the more speculative element of the dealer fraternity. The cost of marketing these issues has been high; commissions in the order of 10% and often options on stock added on; beyond this the company has further costs in the preparation of the prospectus, with its legal and accounting fees. In total these costs often appear sufficiently high so as to preclude this as a reasonable avenue to additional funds. In total, this source of debt or equity financing is not at present significant as far as small business is concerned.

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24. Before summarizing what could be called external sources of long term debt and equity capital, internal sources of capital generation should receive mention. The cash generation power of business and in particular retained earnings, which are in effect additions to equity capital, are an all important source of capital to established and profitable business and have the advantage to management of being "new" funds which flow into the company without the test of the market place, and without any diluting effect upon existing shareholders. Small business receives some measure of encouragement in this area due to the lower rate of tax paid on the first $35,000 of taxable income. As the definition of Associated Companies has been tightened recently, and should be tightened further, it would seem reasonable to consider a higher amount than $35,000 at the lower rate of taxation. Internal sources of capital generation are, of course, not available to newly established business; in fact the reverse is true. New business ventures invariably have cash operating losses at the outset and require sufficient capital to overcome the period of cash loss.

25. In summary, the external sources of long term debt and equity capital to new and growing small business appear limited to:

a) Individuals
b) Institutions via mortgages against real property
c) Leasing of properties and equipment
d) Provincial development programs
e) Private regional development companies
f) Venture capital companies
g) Investment dealers

Of these b) and c) represent only debt sources whereas the others might be either or both sources of debt and equity capital. These sources, though in total non-measurable, provide

some supply of risk capital. It would be intriguing to know how many capital short, small business managements in Canada are familiar with such sources and have made a concerted effort to learn on what terms long term capital might be available. The U.S. experience on this count has been documented and is: "Among small businesses, reported dissatisfaction with long-term financing experience, for both equity capital and credit, reflected primarily lack of effort to get funds, because respondents assumed their efforts would not meet with success. For example, four-fifths of the small companies needing equity capital made no effort to get it. In contrast, more than half of the medium-size and about all of the large companies needing funds did make a financing effort."[1.] Two things appear to be required:

1) Larger regional sources of debt and equity capital through regional or provincial development companies or one or more national investment institutions, partially or wholly oriented towards the long term capital needs of small business,[2.] and

2) Education of small business management in the use and the derived benefits of such sources of capital. Neither of these objectives has any validity until the financial needs of small business can be clearly defined.

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1. "Small Business Financing: Corporate Manufacturers", Federal Reserve Bulletin, January 1961, p. 13.

2. The need for an institution is well outlined by A.D.H. Kaplan: "The greatest need is for an institution to which small business can bring its case for capital. There is no opportunity for small business to outline its plans for growth, indicate the type of capital it requires and secure advice on consideration of its plans. Small business could think in this manner if there were a point in so doing. As long as small business gets its capital in a haphazard way it will think in this manner."

Federal Reserve System, Financing Small Business. Report to the Committee on Banking and Currency, 1958, p. 123.

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Federal Reserve System, Financing Small Business, Report to the Committee on Banking and Currency, 1958, p. 123.

26. Long term debt and equity capital requirements of small business

There is no way presently to measure the demand for long term debt and equity capital save the collective experience of investment officers and investors who deal in the small business area. The best picture available of the financial condition of Canadian small business by which its needs for capital might be approximated is provided by Taxation Statistics[1.] and reveals that generally speaking small business is fairly liquid, not particularly profitable, and seemingly not under-capitalized.

27. Exhibits 1-3 show composite balance sheets of small business, as derived from a sample of 1959 corporate returns. These tables tend to support the importance of certain sources of capital previously outlined. Advances from shareholders assume a particular importance with companies whose assets are less than $250,000 (Exhibit 1). Mortgage debt is an important source of long term capital to companies with assets in a range of $250,000 - $1,000,000 (Exhibit 2), whereas shareholder loans are relatively less important.

28. In each of the three composite balance sheets shown, corporate liquidity is adequate, the relationship of debt to equity quite favourable and dividends are being paid. On the basis of these figures why should one be concerned with small business capital needs? The answer turns back to the qualitative definition of small business, as made in this brief. It is the growing business which needs adequate and reasonable sources of capital to maintain its development. The sample of companies used covers by necessity, companies in every stage of their economic growth. It is reasonable to assume that the growing company in a dynamic stage of development is always the exception rather than the rule in small business, as it is in big business. In a composite picture its problems would not stand out, being surrounded in all likelihood by static, mature businesses

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1. Department of National Revenue, 1961 Taxation Statistics, Ottawa, 1961.

EXHIBIT 1

BALANCE SHEET OF A TYPICAL COMPANY WITH ASSETS LESS THAN $250,000 BASED ON SAMPLE OF 64,265 COMPANIES. (Table 5, p.146-7, 1961 Taxation Statistics) BASED ON 1959 TAXATION RETURN

ASSETS			LIABILITIES		
Cash and government securities		$ 5,418	Bank loans		$ 7,351
Accounts receivable		17,553	Accounts payable		14,991
Inventories		15,274	Tax liabilities		1,073
		38,245			23,415
Land		$ 4,445	Due shareholders		$ 7,540
Building and Equipment	$ 29,515		Deferred income		1,063
Less: depreciation	11,376	18,139	Mortgage debt		4,623
Investment in affiliates		2,206	Other funded debt		1,529
Other securities		4,462	Other liabilities		5,217
Intangibles		4,005			
Other assets		1,802	Preferred shares		5,782
			Common shares		10,352
			Surplus		13,783
		73,304			73,304
Working capital		14,830			
Current ratio		1.6	Net worth	$ 29,917	
Annual sales		139,263	Pre-tax return on net worth	13.2%	
Profit before taxes		3,960			
Dividends paid		779			
Pre-tax return on sales		2.8%			

EXHIBIT 2

BALANCE SHEET OF A TYPICAL COMPANY WITH ASSETS IN RANGE OF $250,000 to $1,000,000
BASED ON SAMPLE OF 16,317 COMPANIES. (Table 5, p. 146-7, 1961 Taxation Statistics)
BASED ON 1959 TAXATION RETURN

ASSETS			LIABILITIES		
Cash and government securities		$ 22,222	Bank loans		$ 46,871
Accounts Receivable		90,108	Accounts payable		68,119
Inventories		81,448	Tax liabilities		6,368
Total current assets		193,778	Total current liabilities		121,358
Land		$ 28,197	Due shareholders		$ 19,341
Building and equipment	$ 170,208		Deferred income		8,072
Less: depreciation	72,580	97,628	Mortgage debt		33,848
Investment in affiliates		22,664	Other debt		15,683
Other securities		37,299	Other liabilities		36,458
Intangibles		8,377			
Other assets		14,622	Preferred shares		25,592
			Common shares		44,407
			Surplus		97,806
		402,565			402,565
Working capital		72,420			
Current ratio		1.6	Net worth	$167,805	
Annual sales		619,298	Pre tax return on net worth	11.2%	
Profit before taxes		18,790			
Dividends paid		5,570			
Pre tax return on sales		3.2%			

EXHIBIT 3

BALANCE SHEET OF A TYPICAL MANUFACTURING COMPANY WITH ASSETS IN RANGE OF $250,000 - $1,000,000. BASED ON SAMPLE OF 3,713 COMPANIES. (DERIVED FROM TABLE 5A, p.148-9, 1961 TAXATION STATISTICS). BASED ON 1959 TAXATION RETURN

ASSETS			LIABILITIES		
Cash and government securities		$ 22,084	Bank loan		$ 55,642
Accounts receivable		100,969	Accounts payable		69,593
Inventories		114,974	Tax liabilities		9,183
		238,027			134,418
Land		$ 9,668	Due shareholders		$ 14,679
Building and equipment	$202,127		Deferred income		3,474
Less: depreciation	102,989	99,138	Mortgage debt		8,537
Investment in affiliates		16,132	Other funded debt		15,189
Other securities		17,263	Other liabilities		34,500
Intangibles		10,126	Preferred shares		25,802
Other assets		8,779	Common shares		43,091
			Surplus		119,443
		399,133			399,133
Working capital		$103,609			
Current ratio		1.7	Net worth	$188,336	
Annual sales		$698,437	Pre-tax return on net worth	12.9%	
Profit before taxes		24,373			
Dividends paid		3,985			
Pre-tax return on sales		3.5%			

which are frequently characterized by a build up of liquid assets and therefore not in demand for new capital.

29. Secondly these figures naturally cannot indicate the financial needs of new business, the second area of small business, as defined in this brief. Statistics on new business incorporations are available for manufacturing and indicate certain basic trends. The two tables shown below indicate that most new manufacturing ventures are small in terms of employees hired and are started by Canadians.

New manufacturing establishments started 1950-60 by employment size group

	No. of companies
Under 5 employees	10,235
5 - 14 employees	4,100
15 - 24 employees	1,053
25 - 49 employees	822
50 - 99 employees	310
100 and over	207
	16,727

New manufacturing establishments started 1950-60 by country of origin

Canada	15,793
U.S.A.	757
U.K.	106
Other	71
	16,727

Source: New manufacturing establishments in Canada, June 1961 Dominion Bureau of Statistics.

30. The rate at which new manufacturing businesses have been established accelerated in early 50's to a peak in 1955-6. With the exception of 1959, which saw a record number of new businesses established, the trend now appears downward.

New manufacturing establishments started

1950	1035
1951	1303
1952	1426
1953	1321
1954	1374
1955	1914
1956	1734
1957	1405
1958	1679
1959	2291
1960	1245

Source: New Manufacturing establishments in Canada, June 1961 Dominion Bureau of Statistics.

31. The three largest industrial groupings among new businesses were: 1) wood industries, 2) food and beverage industries, and 3) metal fabricating. Among new business of foreign origin metal fabricating, chemical products and electrical products predominated. Though data is not available, it is reasonable to presume that new businesses of foreign origin would start on a larger scale than domestically started business. In the case of branch plants, these are often established only after a domestic market has been established through imports. It is further less likely that a foreign new business, particularly a branch plant, would require capital. The capital requirements one may assume would come from domestically originated new, small business ventures.

32. In discussing the demand for long term capital by small business, two areas have been emphasized: namely growing business and new business. A third area exists which, though not a dynamic force in the economy, nevertheless presents a specific need; this is the capital required by small private businesses which are faced with either a succession duty or a change in ownership problem. This is yet another area of small business capital needs which is generally undocumented and requires careful appraisal.

33. At various times experts have commented on the demand for capital by small business in Canada; two recent expert opinions are: "If small business in Canada is being regularly deprived of capital funds simply because of some anomaly of the capital market, it is not glaringly obvious."[1] A bolder statement is made by W. F. Lougheed in his study of secondary manufacturing industries in Canada. "Long term risk capital to-day, even in Canada, is sufficiently plentiful to permit the establishment of new industries if the prospects are attractive for the rewards of risk. There are, in short, entrepreneurs with sufficient funds to suffer a few lean years in exchange for the prospects of many lush ones."[2] Lougheed

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1. Wm. C. Hood, Financing of economic activity in Canada, 1958, p.293.
2. W. F. Lougheed, Secondary Manufacturing Industry in the Canadian Economy. Baxter Publishing Company, Toronto, 1961, p.131.

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1. Wm. C. Wood, [illegible]

2. W. E. [illegible], [illegible] Manufacturing Industries in the Canadian Economy, [illegible] Publishing Company, Toronto, 1961, p.116.

does not make a distinction between risk capital for small or large business, but the implication is that there is enough for everybody. These expert opinions appear diametrically opposite to prevalent U.S. analysis of the subject, and to the general tenor of this brief.

34. Typical of an American expert opinion is Wendell B. Barnes, Administrator, Small Business Administration: "Equity capital and long-term loans for growth and development purposes have never been readily available to small business. Commercial banks furnish short and intermediate term loans, but not venture capital and long term credit. Existing institutions which could provide venture capital are not able to assist smaller firms, since the cost for public sale of securities is disproportionately high to small business issuers."[1.]

35. In early 1959, the Harvard Business Review sponsored a survey on small business financing.[2.] The questionnaire used asked for an appraisal of sources of long term debt and equity capital for small business; almost two-thirds of all respondents were in wide agreement as to the need for additional sources, although smaller manufacturers, retailers and wholesalers and financial institutions showed more concern about this than larger manufacturers.

36. In early 1961, the Federal Reserve System published findings from probably the most exhaustive study made recently of external financing by business in various size categories. The table shown as Exhibit 4 clearly indicates that in the field of long term credit and equity capital, small business has needs which, relative to medium and large business, are not being met.

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EXHIBIT 4

Size of company and type of financing related to financing experience

(percentage of all manufacturing corporations in each size group)

Financing experience	Small	Medium	Large
		Short-term credit	
Total in scope	100.0	100.0	100.0
Total response	81.8	83.9	94.5
No need for funds	44.5	38.7	45.3
Needed funds	37.3	45.2	49.8
Needs met satisfactorily	26.3	39.9	48.3
Experience not satisfactory	11.0	5.2	1.5
No financing efforts made	4.3	1.2	0.5
		Long-term credit	
Total in scope	100.0	100.0	100.0
Total response	81.7	84.0	94.5
No need for funds	64.1	66.0	70.1
Needed funds	17.6	18.0	24.4
Needs met satisfactorily	5.9	11.7	20.9
Experience not satisfactory	11.7	6.4	3.5
No financing efforts made	8.4	3.6	2.0
		Equity capital	
Total in scope	100.0	100.0	100.0
Total response	81.8	83.9	94.5
No need for funds	68.2	69.9	52.7
Needed funds	13.5	14.1	42.3
Needs met satisfactorily	1.4	6.2	36.3
Experience not satisfactory	12.2	7.9	6.0
No financing efforts made	10.7	6.7	3.0

(Note: Details may not add to totals because of rounding.)

Source: Board of Governors of the Federal Reserve System. Federal Reserve Bulletin, January 1961, p.12.

In summary; "the extent to which financing needs were met satisfactorily varied substantially by type of financing needed. Almost three-fourths of the small companies needing short term credit were able to obtain such funds in amounts and on terms they regarded as satisfactory. In the long term credit area, however, only one-third of the small companies needing funds obtained them on a satisfactory basis, and only one-tenth of those needing equity capital were satisfied."

37. When one considers the U.S. experience and the relatively few sources of long term debt and equity capital available in Canada, it is reasonable to assume that there is a demand for venture capital in Canada which is not being met by the capital market. Obviously a great deal of research is required to pin point the nature of this demand. It is a difficult field to study for those about to be helped will be highly suspicious and probably highly uncooperative with anyone endeavouring to find out about their financial requirements.

38. In the United States the Federal Reserve System, Small Business Administration and the Select Committee on Small Business, U. S. Congress have undertaken many studies in this field. In Canada no effort of a comparable magnitude has been made. More is needed here than expert opinions. Before serious thought can be given to remedial action to satisfy the assumed demand for capital by small business, that demand will have to be studied in detail.

39. <u>Present Government financial aids to small business</u>

The Government, recognizing in broad terms the financial problems of small business, has provided certain incentives and financial assistance to small business. Among the more important incentives is the lower rate of corporate tax on the first $35,000 of taxable income. In the area of financial assistance, the Industrial Development Bank with its enlarged powers is performing an

important role in small business finance. More recently the Small Businesses Loans Act was established to make available through chartered banks, loans up to $25,000 with a maximum term of ten years, with the Government guaranteeing each bank against loss up to 10% of the loans made. From the inception of the small loan program on January 19, 1961 to the end of December 1961, 2,977 loans were made with a total value of $25,582,269.41 and an average loan value of $8,593.[1] When conceived in late 1960, it was hoped that small business, particularly in the distributive trades, could utilize quickly a major portion of the $300,000,000 which the Crown was prepared to guarantee to the chartered banks. The Small Businesses Loans Act has not seemingly lived up to expectation, which may indicate that at the time it was written too little was known of the demand for credit which the Act was endeavouring to meet. If this assumption is valid, it underlines the importance of research to ascertain the financial demands of small business before legislation is enacted to meet it.

40. New business also received a modest stimulus in 1961 through special capital cost allowances under the New Products Programme which allows for up to double normal depreciation in the first year on most equipment acquired for the production of new products in Canada or new products to surplus manpower areas. No figures are available yet on the use business has made of this provision of the Income Tax Act. Though it is a departure in the right direction, it is only a modest stimulus compared to what many countries in the world offer by way of tax incentives to newly established business. The New Products Programme, it should be noted, however, makes no concession to business by size.

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1. House of Commons, Official Report, February 26, 1962, p.1243.

All categories of size are treated equally, the intention being to stimulate the introduction of new products; it seems that the depreciation advantages offered are actually more attractive to already established, larger business rather than to new, small business.

41. Present government non-financial aids to small business

The non-financial problems of small business are most lucidly shown by data on business failures. In 1960, the following were the causes of business failures:

Classification of causes of business failures in Canada, 1960.

	%
Neglect	2.1
Fraud	0.5
Lack of experience in the line	15.2
Lack of managerial experience	32.8
Unbalanced experience	14.8
Incompetence	33.6
Disaster	0.5
Reason unknown	0.5

Age of 1960 Canadian failures
(The year in which concerns that failed in 1960 started in business)

	%
1960	4.5
1959	18.6
1958	16.7
1957	9.3
1956	8.1
1955	7.8
	65.0

Source: Research Division, Dun & Bradstreet of Canada Ltd., Toronto.

42. On the basis of 1960 experience it would appear that 65% of all failures occur in businesses established for five years or less. The reasons for failure appear basically managerial shortcomings.

43. In 1961, the average current liability of a failing business was $57,182.00. The average varied by classes of industry as follows:

Manufacturing	$118,205
Wholesale trade	51,800
Retail trade	34,145
Construction	71,358
Commercial service	42,140
Canadian average	$ 57,182

Source: Research Division, Dun & Bradstreet of Canada Ltd., Toronto.

44. Though failures by size of failing company is not given, it may be presupposed from the above, that most companies would fall within the definition of small business used in this submission.

45. The record of failures and their attribution to managerial shortcomings highlight the non-financial needs of small business; in other words lack of capital is only one of a series of problems facing small business. Frequently the uppermost problem may be non-financial and may be a function of a lack of administrative or technical skill. Unless non-financial problems can be overcome, the introduction of more capital will do no more than postpone awareness of the more fundamental problem, whatever it may be.

46. It seems clear that any source of long term debt and equity capital should be in a position to offer non-financial assistance if needed to small business in order to safeguard and improve its investment. Further it would seem appropriate that whatever arm of the government is concerned with small business provide management aids by way of literature, regional meetings, advice on exports, advice of management techniques, tuition through universities and vocational schools, etc. Some assistance is being given in the export field, through the Department of Trade

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Manufacturing	[illegible]
Wholesale trade	[illegible]
Retail trade	[illegible]
Construction	[illegible]
Commercial service	+2,140
Canadian average	[illegible]

Source: Research Division, Dun & Bradstreet of Canada Ltd., Toronto

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and Commerce and Trade Commissioners offices. Some publications, such as the Small Business Manual, published by the Department of Trade and Commerce, have been made available through the Queen's Printer. A greater intensification of effort is required. It is understood that at present small business management requesting information from the Federal government frequently has to be referred to U. S. publications, as Canadian equivalent of the same are non-existent.

47. As will be suggested later, a solution would appear to be to focus all government activities directed towards small business into one organization, which would make its services, both financial and non-financial, widely known and available to small business. The non-financial services would be essentially educational and informational and would be directed towards improving the quality of small business management; through such an effort the efficiency and competitiveness of small business could be improved.

48. Political attitude towards small business

The devotion with which small business is treated politically has its genesis in the myth that our economy is still based on the ideal of pure competition wherein a multitude of small business entities compete in the market place. The reverse of the same myth hounds big business as being predatory, using monopolistic pressures to harm all who deal with it. The emotionalism of this issue, particularly in the U. S., has been brilliantly analyzed in Glover's, "The Attack on Big Business."[1] As Glover points out, this is material out of which political platforms are formed. "Small and independent business is the backbone of American free enterprise. Upon its health depends the growth of

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1. J. D. Glover - The Attack on Big Business. Division of Research, Graduate School of Business Administration, Harvard University, 1954.

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the economic system whose competitive spirit has built this nation's industrial strength and provided its workers and consumers with an incomparably high standard of living.... We reaffirm our belief in the necessity of rigorous enforcement of the laws against trusts combinations and restraints of trade, which laws are vital to the safeguarding of the public interest and of small competitive businesses against monopolies, etc." Extract from the 1952 Platform of the U. S. Democratic Party.

49. Is big business really destroying small business and the opportunity for entrepreneurial endeavour by the individual? Is government intercession required to save small business? Studies on industrial concentration in the U. S. appear to indicate that no violent changes are taking place. As might be expected in certain industries the degree of concentration is high, an oligopolistic situation exists and small business participation is realistically precluded. In other industries the reverse is true. An analysis of industrial concentration in the United States summarizes this as follows: "1) The American economy is highly concentrated. 2) Concentration is highly uneven. 3) The extent of concentration shows no tendency to grow, and it may possibly be declining. Any tendency either way, if it does exist, must be at the pace of a glacial drift."[1.]

50. The cry to "do something" for small business has always had political appeal. The danger inherent in political action, however, is that in an effort supposedly to benefit the largest possible number of citizens, legislation may be considered which would tend to protect rather than to encourage, thereby fostering uncompetitive business at the total economy's inevitable expense.

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1. "The Measurement of Industrial Concentration", M. A. Adelman, Review of Economics and Statistics, November, 1951.

51. Besides the danger inherent in the political attitude to create protective rather than encouraging legislation, there is the present danger in Canada that small business legislation would by necessity have to be based on insufficient knowledge of the problem which is being legislated. At this time, with our present knowledge of small business financial needs, legislation would take on an Alice in Wonderland complexion: "When the Queen of Hearts cried, 'Sentence first - verdict afterwards' Alice said loudly, 'Stuff and nonsense - the idea of having the sentence first.'"

52. Potential improvements in the supply of long term debt and equity capital for small business

Lack of specific knowledge of the nature of demand makes it difficult to propose how appropriate sources of capital might be created. Assuming, however, that what is broadly indicated in this report is indeed true, a shortage of long term debt and equity capital for small business exists in Canada and the capital market has not met the challenge of meeting the demand.[1.] Assuming that it is economically and socially desirable to create a greater flow of savings into this sector, the experience of other countries in diverting savings towards small business should be studied. The most notable experiment, and one which is both geographically and chronologically closest to us, is the American legislation which brought about the formation of a multitude of Small Business Investment Companies within the last two years.

53. Small Business Investment Companies were first defined by an Act of Congress in August, 1958,[2.] the purpose of which was: "To make equity capital and long-term credit more

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1. The reasons are documented in great detail in volume 1 of Financing Small Business, Report to the Select Committees on Small Business, April, 1958.

2. Public Law 85-699, 85th Congress, August 21, 1958.

11. Besides [illegible] relevant in the political area [illegible]

[illegible]

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12. Research [illegible] the supply of long term debt and equity capital for small business

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2. Public Law 85-699, 85th Congress, August 21, 1958.

readily available for small business concerns, and for other purposes." In summary, the Act provides for the following:

A.) Minimal Small Business Investment Company (S.B.I.C.) under the Act:

1) Minimum capital $150,000 paid in.

2) Small Business Administration (S.B.A.) will match this by purchasing $150,000 of debentures from S.B.I.C.

3) In addition S.B.A. may lend S.B.I.C. an amount equal to 50% of its paid in capital, and surplus (including the $150,000 debentures).

B.) To attract funds to S.B.I.C.'s the Act provides for certain tax benefits:

1) Should a stockholder of a privately or publicly owned S.B.I.C. sell his shares at a loss, he may offset this loss against his ordinary income to the full extent of the loss, rather than as an offset against a comparable gain. This particular tax feature is of relatively greater significance to individuals in higher income tax brackets.

2) Realized gains on the sale of S.B.I.C. shares are taxable at the usual capital gains rates.

3) Should an S.B.I.C. incur a loss on one of its investments, it may offset this loss against ordinary income instead of against capital gain.

4) Any S.B.I.C. may elect to be taxed as a regulated investment company under the Investment Company Act of 1940. If such an election is made there is no corporate income tax on the amounts distributed to shareholders as ordinary dividends provided that at least 90% of the S.B.I.C.'s gross income is derived from interest, dividends and capital gains, and is distributed to shareholders. (Certain other provisions not discussed).

5) Dividends received by an S.B.I.C. upon stock of a domestic small business concern is non-taxable (except in a year in which the S.B.I.C. elects and qualifies to be taxed as a regulated investment company).

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3) Should an S.B.I.C. incur a loss on one of its investments, it may offset this loss against [illegible] against capital gains.

4) Any S.B.I.C. may elect to be taxed as a regulated investment company under the Investment Company Act of 1940. In such an election it would thereby be not taxable on that part of its income distributed to shareholders (as dividends), provided that at least 90% of the S.B.I.C.'s gross income is derived from interest, dividends and capital gains, and is distributed to its shareholders. (Certain other provisions not mentioned.)

5. Dividends received by an S.B.I.C. from stock of a domestic small business concern [illegible] in a year in which the S.B.I.C. [illegible] taxed as a regulated investment company.

54. These are important tax incentives within the framework of the U. S. tax structure and since an amendment in June, 1960[1.] when the investment powers of S.B.I.C.'s was broadened, funds have flowed quickly into a large number of newly incorporated S.B.I.C.'s. As of January 17, 1962, $269,064,094 had been invested in 40 S.B.I.C.'s through public offerings and $9,671,506 had been invested in 28 S.B.I.C.'s through private offerings, subsequent to the accumulation of initial capital by such companies.

55. Due to their newness, S.B.I.C.'s are not fully invested as yet and are not borrowing heavily from the S.B.A. Total investments made by S.B.I.C.'s through March 31, 1961 were $84,736,518, $45,069,706 or 53% of which was equity financing, the balance being term loans. Non-manufacturing industries accounted for 30% of the equity investment and 75% of the term loans. The heavy preponderance of term loans in the non-manufacturing segment is due to loans in the construction and real estate industry. Manufacturing accounted for 70% of the equity investment, with large aggregate investments being made in the field of scientific equipment, metal products, electrical machinery and chemicals and allied products. The size classification of business most heavily invested in is business with 100-249 employees and gross revenues in a range of $500,000 - $999,999, which is a size classification in which rapid growth is often experienced, and such growth naturally requires external capital.

56. Statistics are also available on the profit and loss performances of S.B.I.C.'s in three size categories: 1) licensed companies with capital and surplus of not more than $325,000, 2) licensed companies with capital and surplus of $325,000 - $1,000,000, and 3) licensed companies with capital and surplus

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1. [illegible]

in excess of $1,000,000. Though the experience has, of necessity, been short, it is interesting to note that only the largest size category has shown a consistent profit. This suggests that in order to operate efficiently, substantial capital must be under administration so as to cover the overhead costs of salaries, office expense, professional fees, travel, etc. In fact only recently there have been some mergers among S.B.I.C.'s, seemingly motivated by the desire to consolidate more assets under one management.

57. The fundamental advantage of the S.B.I.C. program has been the establishment of an entirely new class of investment company, which combining private or corporate savings with government support, has established a source of long term credit and equity funds for small business. This has been achieved by the U. S. government without substantial administrative costs to itself and without the imposition of government directives in the operation of S.B.I.C.'s. Though the companies are regulated, they are given broad scope within which to operate. Finally S.B.I.C.'s have diverted personal savings into small business financing, through the inducement of considerable tax incentives.

58. Clearly in this U. S. experiment, Canada has the ideal circumstances for observation of how savings can be diverted toward small business investment. The continued experience of American S.B.I.C.'s and the legislation governing them should provide most valuable guides towards whatever legislation Canada may wish to undertake in this field.

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America's S.B.I.C.'s and the legislation governing them should provide most valuable guides towards what might be done in Canada [illegible] in this field.

RECOMMENDATIONS

59. Assuming that after a comprehensive study of the financial needs of small business it is indicated that a void exists in the capital market insofar as availability of long term debt and equity capital to small business is concerned, a mechanism should be evolved to meet the evident demand.

60. It is recommended that the mechanism be provided through legislation which would create a new class of investment company devoted to small business investment. The basic characteristics of such investment companies are suggested as being:

1) Minimum size; a size limitation is recommended so that assets are large enough to allow for:

   (a) diversification of risk and still maintain ability of making substantial individual investments (i.e. if a limit of 10% of total assets is placed upon any one investment holding, and if investments up to $1,000,000 are to be considered, $10,000,000 of total assets would be required),

   (b) management, which would be large and strong enough to analyze investment opportunities and follow through on investments already made. Management should be flexible enough to step in and help direct certain aspects of company operation if need be.

2) Management should take risks as it sees fit within the basic policy defined for such an investment company and be judged by the results generated. It is assumed that such an investment company, though operating under specific legislation, would not be government controlled.

3) Investment company should be started on the premise that results cannot be achieved in less than three to five years, and that results should be anticipated through capital appreciation rather than income.

61. In order to attract funds into such an investment company, certain inducements should be offered. It is felt that as far as possible these inducements should avoid tax concessions and unnecessary complexities. Two basic inducements are recommended:

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1) Investment company be empowered to borrow funds from a new crown corporation, at a reasonable rate of interest related to the Bank of Canada rediscount rate. Such borrowings would be made up to a predetermined ratio of paid in capital and surplus of the investment company and should be at least in the order of 50% of that amount. The risk of the borrowing would remain with the investment company, which would supply security to the crown corporation by way of pledging its investment holdings.

2) In order to give recognition to the risks assumed by the investment company, it should be given the privilege of writing off any capital losses against any taxable income, over a sufficiently long period so that this provision would be meaningful. A period of up to ten years is suggested.

62. It is suggested that though a demand for such an investment company's services exist, the demand is not sufficiently broad to justify encouraging a large number of investment companies to be formed. It would be desirable to limit the number of investment companies to perhaps no more than five or six at the outset. With an average investing power of $10,000,000 minimum, this would be a fund of about $60,000,000, made up of $40,000,000 paid in capital and $20,000,000 borrowings from the crown corporation.

63. It would further seem desirable that such investment companies should be formed by existing financial institutions. There are at present groupings of banks, trust companies, and insurance companies in the Canadian economy; these groupings, which presuppose a working relationship, could spawn the proposed investment companies, and lower cost of operations by the sharing

of certain facilities. American S.B.I.C. experience already indicates the feasibility of associating such investment company operations with that of a commercial bank.

64. It is recommended that a new crown corporation be formed so as to make loans available to the proposed investment companies. The functions of the new crown corporation, however, are suggested to be much broader; it should assume the direction of all government activities in the small business field. For instance, in order to insure the effectiveness of the proposed investment companies along side the existing Industrial Development Bank, it is suggested that the Industrial Development Bank become responsible to the new crown corporation and that its activities be limited to acting as a mortgage bank to small business. In this manner the Industrial Development Bank would complement rather than conflict with the role envisioned for the proposed investment companies.

65. It is recommended that besides its financial functions, the new crown corporation would perform important educational and informational functions in the small business field. As previously pointed out, small business failures stem more from managerial shortcomings than financial shortcomings. A great need exists to improve the managerial capacity and skill of small business. The type of service which it is recommended the new crown corporation should perform include the following:

1) Stimulate education in business management.

   (a) Through the encouragement of educational programs at present institutions such as universities and vocational schools.

   (b) Regional meetings which would encourage small business management to discuss their problems and learn from their collective experience.

[illegible]

indicates the feasibility of associating such investment company operations with that of a commercial bank.

64. It is recommended that a new crown corporation be [illegible] companies. The functions of the new crown corporation, however, are suggested to be much broader; it should assume the direction of all government activities in the small business field. For instance, in order to insure the effectiveness of the proposed investment companies along with the existing Industrial Development Bank, it is [illegible] become responsible to the new crown corporation and that its activities be limited to acting as a mortgage bank to small business. In this manner the Industrial Development Bank would complement rather than conflict with the role envisioned for the proposed investment companies.

65. It is recommended that besides its financial functions, the new crown corporation would perform important educational and informational functions in the small business field. As previously pointed out, small business failures stem more from managerial shortcomings than financial shortcomings. A great need exists to improve the managerial aspects, and skill of small business. The type of services which it is recommended the new crown corporation should perform include the following:

1) Stimulate education in business management.

(a) Through the encouragement of educational programs at present institutions such as [illegible]

(b) [illegible] meetings which would encourage small business management to discuss their problems and learn from their collective experience.

2) Stimulate small business management contact with government.

(a) So that small business can get its share of government contracts, including defense work.

(b) So that small business can maximize its export trade potential.

(c) So that small business can become fully aware of government research work, such as the work of the National Research Council, etc.

3) Supply informational services,[1] so that small business is aware of -

(a) New management techniques.

(b) New taxation and tariff policies which may effect it.

(c) New business opportunities due to technological change.

4) Supply data collecting services - so that small business may know more about itself and so that its interests can be served on the basis of factual information.

5) Act as a coordinating body which would endeavour to help and stimulate provincial development programs in the small business area.

66. In summary, the new crown corporation's non-financial functions would dominate its financial utility. This seems entirely in order for it is the opinion of this submission that the financing of small business should be left to private initiative, even if it has to be stimulated by certain proposed legislation. The educational and informational aspects of small business, however, are more properly a government function. It is an important function for it can improve the competitiveness of small business and thus effect the vitality of the entire economy.

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1. It is interesting to note that in the United States at least one commercial bank, the Bank of America, is performing this service through a division called Small Business Advisory Service.

SUBMISSION TO THE ROYAL COMMISSION ON BANKING AND FINANCE

BY THE CHARTERHOUSE GROUP CANADA LIMITED,
60 YONGE STREET,
TORONTO 1, ONTARIO.

SUMMARY

1. This Corporation views with concern the incursion of the Government of Canada through its crown corporations into sectors of the economy at present adequately serviced by private enterprise. Particularly this concern is directed to the recently broadened and extended activities of the Industrial Development Bank. In addition we believe that it is wrong for a crown corporation to hold shares in privately owned businesses as does the IDB.

2. It is the purpose of this brief to describe the activities of Charterhouse in particular and of competing similar organizations in general so as to demonstrate that there is adequate capital available to well-managed small and medium sized businesses. Further it is intended to show how the IDB's function is encroaching on the function of Charterhouse and other companies in the same line of activity.

3. It is our conclusion that the activities of the IDB are in part at least unnecessary, as they provide subsidized competition to efficient private financial activities and are perhaps even harmful to the efficient functioning of the economy rather than beneficial as was originally intended. We therefore recommend that consideration be given by the Government to restricting the activities and scope of the IDB to the purpose and function for which it was originally formed.

Submission to The Royal Commission (Continued)

3. SUMMARY (Continued)

By this it is meant that the IDB should again be a source of money only when it has been shown that the seeking company or individual is unable to obtain money on reasonable terms elsewhere, when borrowings are adequately secured by mortgage on fixed assets, when management shows sufficent ability and energy to give the enterprise a reasonable chance of success. An alternative to restricting the activities of the IDB would be provide tax advantages, subsidies or other incentives so that private enterprise can exist side by side with subsidized Government competition. It is our view that this alternative, although initially attractive would be impractical and rather than eliminating an evil would compound it. A more constructive effort would be for industry, education or government or a combination of all three to provide means for small business management to improve its knowledge and ability. An outstanding example of this self help is the Executive Development programme run in Montreal under the auspices of the Board of Trade in co-operation with the Harvard Graduate School of Business Administration.

CHARTERHOUSE POLICIES AND HISTORY

4. The Charterhouse Group Canada Limited was incorporated (Dominion - as Charterhouse Canada Limited) in 1953 with the then and still primary purpose of providing long-term and permanent capital for small and medium sized businesses whose requirements are too great to be filled from individual and other private sources but are too small to attract the economical services of reputable underwriters.

Submission to the Royal Commission (continued)

1. [illegible]

By this it is meant that the IDB should again be a source of money only when it has been shown that the seeker of capital or individual is unable to obtain it [illegible] on reasonable terms [illegible] mortgage on fixed assets, where management shows qualities, ability and [illegible] to give the enterprise a reasonable chance of success. An alternative to restricting the activities of the IDB would be provide tax advantages, subsidies or other incentives so that private enterprise can [illegible] with [illegible] Government competition. It is our view that this alternative, although initially attractive would be impractical and rather than eliminate an evil would compound it. A more constructive effort would be [illegible] industry, education or government [illegible] to provide means for small [illegible] management to improve its knowledge and ability. An outstanding example of this self help is the Executive Development programme [illegible] under the auspices of the Board of Trade in cooperation with the Harvard Business School of [illegible] University.

[illegible]

1. The [illegible] (Canada) [illegible] and [illegible] of providing long term and permanent capital for small [illegible] requirements [illegible] and other private sources but are too small to attract [illegible] economical [illegible]

Submission to The Royal Commission (Continued)

5. CHARTERHOUSE POLICIES AND HISTORY (Continued)

The Company was originally wholly owned by its parent company, Charterhouse Industrial Development Company Limited, of London, England (the name of which has since been changed to The Charterhouse Group Limited) and later infusions of capital have resulted in two new shareholders joining in the enterprise, these being the Pearl Assurance Company Limited, London, England and Compagnie Financiere de Suez, Paris, France. Negotiations are presently under way which it is hoped will lead to share participation in Charterhouse by a large Canadian corporation, with the ultimate aim of securing public particpation by way of an underwriting and eventual listing of Charterhouse stock on a Canadian stock exchange.

6. Since operations commenced in mid-1953 Charterhouse has investigated over 1,100 applications for capital assistance. The first investment was made December 31, 1953, and altogether 24 investments totalling $5,950,000 have been completed. Initially these have varied in size from $30,000 to $350,000 though as the businesses themselves grew most required additional infusions of Charterhouse capital.

7. Appended to this brief is a copy of Charterhouse's promotional booklet 'Capital for Industry' which describes our investment policies with respect to the size and type of company in which we invest, the usual method of investment and our views on avoiding voting control of those companies with which we become associated. It will be seen that our object is to provide only businesses whose management has been proven sound with the money necessary to operate free of financial stringency. New businesses seldom have managerial experience in the particular activity proposed and thus are usually outside our policy limits.

Submission to The Royal Commission (Continued)

7. CHARTERHOUSE POLICIES AND HISTORY (Continued)

As we do not pretend to be managers we are not interested in declining businesses which need injections of management as well as money. Also listed in this booklet are those companies presently associated with Charterhouse. Since the last printing of the booklet four new companies have either associated themselves with Charterhouse or are in the process of doing so.

8. It is worth noting the fact that over the past eight years only 2-1/2% of those companies approaching Charterhouse measured up to our standards. Though, as indicated in the previous paragraph management ability has been the prime criterion, other reasons for rejection have been the fact, that the applicant has been in an unattractive field of activity or that it was our view that the managers of the company would be incompatible with outside minority investors. In many instances the applicants requirements could not be satisfied by Charterhouse. This rejection rate is admittedly extremely high but many applicants turned down by Charterhouse have successfully sought capital elsewhere as other groups have other critera and policies. This returns us to the point that it is seldom that a well-managed company with even reasonable prospects cannot obtain the needed funds from private sources.

9. COMPETITION

There are to our knowledge no companies in direct competition with Charterhouse to the extent that they have the same policies with respect to avoidance of voting control and the Charterhouse philosophy on management. However, small business has an unusually wide choice of companies roughly similar in object to Charterhouse and differing only in policy and method.

Submission to The Royal Commission (Continued)

9. COMPETITION

A list of these companies compiled at random from past press announcements and news items follows with an indication of sponsorship; this list is not meant to be exhaustive as there are doubtless many more private and semi-private groups with similar activities.

AMERICAN NILE (CANADA) LIMITED, MONTREAL
(stock privately owned - Banque Zilkha)

AUGUST LENZ & CO. (CANADA) LTD.
(Munich)

BRITISH INTERNATIONAL FINANCE (CANADA) LTD.
(Canadian and B.W.I.)

CANADIAN CORPORATE MANAGEMENT
(J.D. Woods & Gordon)

COMMERCIAL AND INDUSTRIAL FINANCE COMPANY LTD., MONTREAL
(Banque Nationale pour le Commerce et l'Industrie, Paris, France)

CONFEDERATION DEVELOPMENT CORPORATION LTD., MONTREAL
(Banque de Paris et des Pays-Bas)

CORPORATION D'EXPANSION FINANCIERE, MONTREAL
(La Maison Bienvenu Ltd.)

DOMINION MANAGEMENT ASSOCIATES LTD., MONTREAL

FIVE ARROWS SECURITIES CO. LTD.
(N.M. Rothschild & Sons, U.K. Banque Lambert, Belgium)

GREENSHIELDS CORPORATION
(Greenshields & Co. Ltd.)

LARCAN INVESTMENTS LIMITED
(Lazard Brothers, U.K.)

LOCANA CORPORATION LIMITED
(Hambros Bank Ltd., U.K.)

LOCANA MINERALS LIMITED
(Hambros Bank Ltd., U.K.)

LOUIS, KEEFER & PENFIELD, MONTREAL
(Private Canadian and U.S.)

TRIARCH CORPORATION LIMITED
(S.G. Warburg & Son)

UNITED NORTH ATLANTIC SECURITIES LIMITED
(Robert Benson Lonsdale & Co. Ltd.,
N.M. Rothschild & Sons)

Submission to The Royal Commission (Continued)

10. It is of interest that primarily because of the severity of competition several companies in the same line of business have to the best of our knowledge withdrawn from active participation in Canada. In the United States the experience of Small Business Investment Corporations has apparently been similar as an official of the Small Business Administration was recently quoted to the effect that most SBICs (particularly the smaller ones) were finding their ventures unprofitable.

11. Let it be clear that competition in our chosen field is not only active because of direct andsemi-direct competition from those companies listed above but also from many other sources in which activities in one way or another impinge on the capital providing function of Charterhouse. These are to a certain extent self-obvious and will only be mentioned briefly:-

a) Underwriters

In Canada in recent years underwriters have been willing to arrange public issues for companies which are smaller, less seasoned, less profitable than those whose securities could be underwritten in other countries. It is admittedly expensive to raise money by this method but nevertheless new companies in glamorous fields seem to be able to obtain public money in amounts as low as $100,000. "The MacMillan Gap" as defined in the U.K. in the nineteen thirties does not seem to exist here. It may well be that the present spate of small speculative public issues is a passing thing and that such issues will in future be confined to the extractive industries. In the meantime, however, such underwriters are directly competitive with Charterhouse.

Submission to The Royal Commission (Continued)

11. COMPETITION (Continued)

b) Lending Companies

Companies in this general field reduce or obviate the need for a company to seek long-term capital. In this class we find companies engaged in equipment financing and leasing, real estate leaseback, factoring and accounts receivable financing. Though these procedures are often costly and involve the recipient in the loss or non-acquisition of pledgeable assets, they are useful in certain circumstances.

c) Provincial and Municipal Bodies

There are numerous provincial and municipal development companies established to provide loans or fixed assets to companies establishing themselves in the relevant areas.

d) Banks

The tendency is for Canadian banks, due to aggressiveness and the extreme competitive pressure in that field, to lend more money and on longer term than would be available to small and medium sized companies in the U.K., or the United States. Though the Government has frowned on term loans in recent years the banks do in practice, if not as a formal procedure, loan money on a term basis thus frankly competing with equity and long-term debt investors.

e) Individuals

The fact that Canada has no capital gains tax is an obvious inducement to the individual to make investments in small and medium sized companies with a view to realizing a gain if and when the company is either sold or floated by way of a public issue.

f) Diversification

The recent fashion of companies to diversify not only vertically but horizontally in order to reduce risk in a given field means that many corporations are constantly seeking investments in companies usually smaller than themselves.

Submission to The Royal Commission (Continued)

12. THE INDUSTRIAL DEVELOPMENT BANK

It is granted that there may be deserving companies seeking capital which are unable to obtain it from any of the sources mentioned; it was to fill this need that the IDB was established to be a "bank of last resort" and this function it fulfilled well. Since July, 1961, however, its scope has broadened and the IDB has become not the last resort for capital seekers but almost the first potential source of funds because it is usually the cheapest. As companies approaching Charterhouse do so in confidence we have not included any actual examples of this. Should the Commission so request, we will be pleased to try to obtain permission of several specific applicants who have expressed this view and should this permission be granted these examples could be fully documented.

13. It is difficult to estimate from annual reports of the IDB the extent to which it is investing in the share capital of the companies for which it provides mortgage money. We have heard from applicants to Charterhouse that this it has been doing for several years and the phrase "Loans and Investments" (our emphasis) has appeared in IDB reports regularly, though the bank's promotional booklets make no mention of capital stock subscription. The only indication of the scope of this activity is the fact that profits on sale of investments were $128,000 in the latest fiscal year. Regardless of the frequency or amount of this practice, it is our belief that a government corporation should not evenin a small way be a shareholder in a private company and thus compete with private companies and individuals.

14. The most recent interim report of the IDB (March 14, 1962) indicates that loans made in the first five months of the current fiscal year are nearly double (in number) those made in the same 1961 period.

[illegible]

11. [illegible]

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14. The most recent interim report of the IDB (March 14, 1962) indicates that loans made in the first five months of the current fiscal year are nearly double (in number) those made in the same 1961 period.

Submission to The Royal Commission (Continued)

14. THE INDUSTRIAL DEVELOPMENT BANK (Continued)

We are aware that many new classes of business are now eligible for IDB financing - "any industry, trade or business undertaking" but this rapid increase in lending at least partly must result from easing by the bank of the asset and management qualifications of the applicants. Should this be the case the government would be well advised to watch with care the operation in the United States of the Small Business Administration's Small Business Investment Corporations and in particular the initial hearings of the Senate Committee on Small Business as doubts are already being raised as to the wisdom and economic soundness of the SBIC programme. In the four years since legislation permitted licensing of SBIC's 525 corporations have been licensed though some have already ceased operations.

15. We have thus shown that the IDB is competing with private enterprise which is, in our view,efficiently servicing its chosen function. It remains only to consider whether the IDB and its expanded function is having a somewhat detrimental effect on industry.

16. Canada is, and has been, faced with a rapidly growing cost of production due to high taxation, excessive labour rates and lower productivity due to our size and other obvious factors. If those companies which have sought money from all the possible sources listed are unable to attract capital or other financial servicing it is possible that due to management weakness or other reasons they do not warrant it. Should they then turn to the IDB it appears that the Government (i.e. the taxpayer) is subsidizing these companies least able to produce and sell efficiently and which should in fact, either strengthen themselves before becoming credit worthy or go out of business.

[illegible]

14. [illegible] (Continued)

We are aware that many new classes of business are now [illegible] "[illegible] understanding" but this rapid increase in lending at least [illegible]y must result from easing by the bank of the asset and management qualifications of the applicants. Should this be the case the government would be well advised to watch with care the operation in the United States of the Small Business Administration's Small Business Investment Corporations and in particular the initial hearings of the Senate Committee on Small Business as doubts are already being raised as to the wisdom and economic soundness of the SBIC programme. In the four years since legislation permitted licensing of SBIC's 5[illegible] corporations have been licensed though some have already ceased operations.

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Submission to The Royal Commission (Continued)

17. It is apparent that the real shortage is not of funds for small business but of management for it. It is reasonable to predict that any steps taken by the Government to stimulate professional management of Canadian business, large and small, would be greeted with an increased flow of funds from the usual private sources.

To: THE ROYAL COMMISSION ON BANKING AND FINANCE

Report of The Ontario Securities Commission
145 Queen Street West
Toronto, Ontario

Mr. Chairman and Members of the Commission:

(1) In submitting statistics, reflecting the nature and extent of the operation of The Securities Commission, the records appended to this report, having regard to the functions of the Commission and the scope of the enquiry, will be limited. The records covering investigations, disciplinary action and/or prosecutions under the Act, or Criminal Code, are extensive, but are not pertinent to the enquiry on Banking and Finance.

(2) The two main functions of the Commission are to supervise and control the activities of those registered to trade in securities and to check the material, as required by the Act, before an issuing company may distribute its securities. With reference to these basic functions, records are maintained, from month to month, of registrants in the different capacities (Appendix A) and the issues accepted for filing (Appendix B). There are no records available as to the dollar value of securities actually sold after an issue is qualified. Appendix A sets forth the registrations in force as of the 31st March, 1951, 1956 and 1961. Appendix B shows the number of issues accepted for filing during the fiscal years ending the 31st March, 1951, 1956 and 1961, which should be just as informative as providing information for each year over the ten year period. In fact, the general trend in corporate financing appears to be best demonstrated by selecting intervals of five years.

(3) The significance of these records, which show a trend over a ten year period, is the marked increase in investment issues and in the number of salesmen employed. Both increases are attributable to the growth in mutual funds, offering a diversified type of investment, and the large sales force employed by several of these companies selling contractual plans, calling for monthly payments over a period of from ten to twenty years. There has been a marked decrease in mining and oil issues, as opposed to the steady flow of industrial financing. The decrease in mining issues is accompanied by a corresponding decrease in registrations of broker-dealers. It is not suggested that constructive mining development is on the wane. Promotional houses, registered as broker-dealers, and the type of speculative issue they sponsor are on the wane. Cancellation of registrations in this field first took its toll. The efforts of United States' authorities to prevent trading, by local dealers, in violation of their laws, became more and more effective. Finally, in 1960, mail addressed to local dealers, who had failed to comply with United States' laws, was stamped "fraudulent" and returned to the sender by postal authorities. Consequently, many dealers, who were largely depending on trading across the border, were forced out of business. Then, in March of 1961, the Board of Governors of The Broker-Dealers' Association issued a Directive to its members, prohibiting offerings being made outside Ontario in violation of the laws of other jurisdictions. Since March, 1961, attempts have been made to qualify mining issues in the United States, sponsored by local broker-dealers, but, so far, without success.

(4) The Commission understands the question of establishing a National Commission will be raised before The Royal Commission. There is only one Securities Commissioner, to our knowledge, who has, through a public announcement,

(3) The significance of these records, which show a trend over a ten year period, is the marked increase in investment issues and in the number of salesmen employed. Both increases are attributable to the growth in mutual funds, offering a diversified type of investment, and the large sales force employed by several of these companies selling contractual plans, calling for monthly payments over a period of from ten to twenty years. There has been a marked decrease in mining and oil issues, as opposed to the steady flow of industrial financing. The decrease in mining issues is accompanied by a corresponding decrease in registrations of broker-dealers. It is not suggested that constructive mining development is on the wane. Promotional houses, registered as broker-dealers, and the type of speculative issue they sponsor are on the wane. Cancellation of registrations in this field first took its toll. The efforts of United States' authorities to prevent trading, by local dealers, in violation of their laws, however, are more effective. Finally, in 1960, mail addressed to local dealers who had failed to comply with United States' laws, was stamped "fraudulent" and returned to the sender by postal authorities. Consequently, many dealers, who were largely dependent on trading across the border, were forced out of business. Then, in March of 1961, the Board of Governors of the Broker-Dealers' Association issued a directive to its members, prohibiting soliciting outside Ontario in violation of the laws of other jurisdictions. Since March, 1961, attempts have been made to qualify mining issues in the United States, sponsored by local broker-dealers.

(4) The Commission understands the question of establishing a National Commission will be raised before the Royal Commission. There is only one member Commissioner, to our knowledge, who has, through a public announcement,

advocated the formation of a National Commission. It is not clear, from the press reports, whether he favours a National Securities Commission only, or a Securities and Exchange Commission. However, the Ontario Commission is directing its remarks to the necessity, if any, of establishing a National Securities Commission. The establishment of a National Commission would, of course, create a much more elaborate administrative system. It should be conceded that situations have arisen, over the years, in which a National Commission could probably have dealt with more expeditiously than the Provincial Administrator directly concerned. Now, these situations, in retrospect, can be regarded as merely temporary.

(5) First and foremost, there was the movement of transients from province to province, when their activities were curtailed in their home province. These transients did not move to another province in order to impose on local residents, but to establish a new base for trading into the United States. New Brunswick, the last stronghold, was not equipped to cope with an invasion. It is submitted that the move of transients is no longer a problem, due to the effective means recently employed by the United States' postal authorities by treating offerings from Canada, in violation of their laws, as "contraband", to which reference has already been made.

(6) Delays, in the past, in having issues intended for national distribution qualified from coast to coast, have caused annoyance which probably could have been avoided by a central administrative body. This is no longer a source of complaint. The improvement, in some measure, is due to the efforts of The Investment Dealers' Association, which is organized across Canada and which cooperates to the fullest extent with the Provincial Administrators. The fact that Administrators, for the past ten years, have met annually has also been a definite

factor in improving the situation across Canada.

(7) Overall, the proposal appears to be ill-timed, as there has been a definite trend to uniformity of legislation in recent years, and the trend still persists. Ontario and Quebec (with certain variations), Alberta and Saskatchewan have similar Securities Acts, all based on the principle of full disclosure. It appears that all provinces still consider a prospectus, and statutory material, based on this principle. Moreover, in the matter of policies, designed to ensure fair and equitable financing, the statement of policies (Appendix C) has been followed since they were first discussed in 1951 at a Conference of Provincial Administrators, held in Toronto, when Provincial Conferences were revived after a lapse of many years.

(8) There is, no doubt, a difference of opinion as to whether primary distribution should be permitted on a stock exchange. The question, like many other questions relating to trading in securities, is largely a local one. When a mining issue is listed on the exchange, all the shares issued, and unissued, are listed and posted for trading. In the case of an industrial issue, only the issued shares are listed. Accordingly, a listed industrial company, undertaking further equity financing subsequent to listing, must have the offering qualified for public distribution, pursuant to the provisions of The Securities Act. Distribution should be made off the exchange, accompanied by the delivery of a prospectus and other statutory material. If the same procedure was followed in the case of mining companies, we would have a primary and secondary market running concurrently. This, of course, is the case in industrial issues as well, but there is a major, practical difference. Industrial issues, usually selling well up in the dollar bracket, do not lend themselves to market manipulation, and other irregularities, as readily as mining

issues offered in the penny bracket. It is submitted that, under these conditions, none of the disadvantages of primary distribution on an exchange would be eliminated, as it follows, on a comparatively thin market, the market could be influenced in the interest of insiders more readily than if the entire distribution was made on the stock exchange.

(9) It seems that the only way to provide a secondary market in the case of mining issues, free from the disadvantages of primary distribution on the exchange, would be to have the total capitalization distributed and in the hands of the public before listing. This would throw distribution back into the hands of promotional houses which have no clients, but sell through mailing lists. Furthermore, there would be no assurance of any market for the shares sold. It is submitted that, under existing conditions, the disadvantages, which are fundamental, would far outweigh contemplated advantages.

(10) The staff of the Commission consists of the Registrar and his staff, lawyers, auditors and investigators, with the necessary clerical staff, for a total complement of forty.

(11) A copy of The Securities Act, R.S.O. 1960, Chapter 363, is attached (Appendix D).

(12) All of which is respectfully submitted, on behalf of The Ontario Securities Commission, for the consideration of The Royal Commission.

O. E. Lennox

O. E. LENNOX
CHAIRMAN

W. M. Duggan

W. M. DUGGAN
REGISTRAR

MARCH, 1962.

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(12) All of which is respectfully submitted, on behalf of the Ontario Securities Commission, for the consideration of The Royal Commission.

[illegible]

O. E. [illegible]
CHAIRMAN

[illegible]

APPENDIX "A"

to the report of

The Ontario Securities Commission

Registrations in force as of the 31st March, 1951, 1956 and 1961.

	1951	1956	1961
BROKERS	94	95	96
INVESTMENT DEALERS	106	114	115
BROKER-DEALERS	200	122	110
SECURITY ISSUERS	64	56	12
INVESTMENT COUNSEL	9	13	19
SECURITIES ADVISERS	17	5	6
SALESMEN	1179	1511	2150

APPENDIX "B"

to the report of

The Ontario Securities Commission

Issues accepted for filing during the fiscal years ending 31st March, 1951, 1956 and 1961

	1951	1956	1961
MINING AND OIL	227	217	101
INDUSTRIAL	100	126	89
INVESTMENT	0	15	19

Annual refilings for the same periods.

MINING AND OIL	38	18	53
INDUSTRIAL	3	2	7
INVESTMENT	0	5	20

NOTE: Investment issues are normally a continuing operation requiring annual refiling.

APPENDIX "C"

145 QUEEN ST., WEST
TORONTO, ONTARIO

ONTARIO

ONTARIO SECURITIES COMMISSION

(Reprint from Bulletin of June, 1955)

POLICY OF THE ONTARIO SECURITIES COMMISSION RELATING TO MINING, OIL AND/OR NATURAL GAS ISSUES WITH RESPECT TO UNDERWRITINGS, OPTIONS, VENDOR INTERESTS AND RELEASES FROM ESCROW

A statement on the above policy was published in the December, 1951, issue of the Bulletin and is reprinted here for the benefit of those to whom it is unfamiliar and to emphasize the continuance of the policy.

This is a basic policy and is subject to adjustment when special circumstances warrant such procedure.

1. UNDERWRITINGS AND OPTIONS

(1) With respect to new issues, no shares shall be purchased, underwritten or optioned at less than 10¢ per share but, where an issue is not new, the Commission may exercise its discretion.

(2) An option shall not be permitted without an underwriting for a minimum of $5,000.

(3) Any underwriting shall be for at least 50% payable forthwith and the balance within 60 days from the date of acceptance of the prospectus for filing by the Commission, subject to adjustment in special circumstances.

(4) Not more than 200,000 shares shall be optioned at any one price, provided that the Commission may exercise its discretion where it considers that exceptional circumstances exist.

(5) The time for exercising the first option shall be not later than six months from the date for completion of the underwriting and further options shall be completed at least quarter-yearly.

(6) There shall be at least a 2½¢ spread between each price range from 10¢ to 20¢, at least a 5¢ spread between each price range from 20¢ to 50¢, at least a 10¢ spread between each price range from 50¢ to 80¢ and at least a 25¢ spread between each price range thereafter.

(7) The spread on shares sold by an underwriter/optionee to a sub-underwriter/optionee shall not be in excess of 1¢ per share.

(8) The Commission will exercise extreme caution in accepting a prospectus for filing when more than 1,000,000 shares are underwritten and/or optioned.

2. VENDOR INTEREST

(1) The vendor interest will be based on a sliding scale not to exceed 25% of a 3,000,000 share company, 20% of a 4,000,000 share company and 18% of a 5,000,000 share company. These percentages are yardsticks and special situations may call for variation either upward or downward.

(2) None of the vendor's share interest in a new oil and/or gas company shall be free from escrow when the prospectus of the company is accepted for filing by the Commission and, with respect to other types of new companies, not more than 10% of the vendor's share interest shall be free from escrow.

3. RELEASE OF VENDOR'S SHARES FROM ESCROW

(1) Oil and/or Natural Gas Companies

(a) Twenty per cent of the vendor's shares shall be released from escrow when an oil and/or natural gas company is fully financed to drill one well (exclusive of the shallow Lloydminster type) and a drilling contract has been entered into therefor.

(b) An additional 20% of the vendor's shares shall be released from escrow when the first well (exclusive of the shallow Lloydminster type) is completed.

(c) An additional 30% of the vendor's shares shall be released from escrow when the second well (exclusive of the shallow Lloydminster type) is completed.

(d) The remaining 30% of the vendor's shares shall be released from escrow when the third well (exclusive of the shallow Lloydminster type) is completed.

(e) The Commission will exercise its discretion in the release from escrow of vendor's shares of oil and/or natural gas companies engaged in the drilling of the shallow Lloydminster type wells.

(2) Other Companies

(a) One vendor's share of companies other than oil and/or natural gas companies, except as provided in clause (b) below, may be released from escrow for:-

(i) every 4 shares purchased from the treasury of a 3,000,000 share company;

(ii) every 5 shares purchased from the treasury of a 4,000,000 share company; and

(iii) every 5½ shares purchased from the treasury of a 5,000,000 share company,

and the release from escrow of the vendor's shares of companies with other capitalizations shall be in a similar proportion.

(b) The Commission will exercise its discretion in the release from escrow of vendor's shares of companies which are engaged in both oil and metal mining ventures or other exceptional cases.

(3) Before consenting to the release from escrow of vendor's shares, the opinion of the appropriate Stock Exchange will be sought by the Commission when dealing with listed issues and the opinion of The Broker-Dealers' Association of Ontario will be sought when dealing with unlisted issues which are being sold to the public by any of its members. The Commission will continue the practice of studying the current balance sheet in order to ascertain what progress has been made in financing an operation and, in addition, consideration will be given to other progress made.

Royal Commission
on
Banking and Finance

Hearings
held at

Montreal

Vol.	Date.
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F.J. Nethercut and R.J. Young
Toronto, Ont.

ROYAL COMMISSION ON BANKING

AND FINANCE

I N D E X

ROYAL COMMISSION ON BANKING AND FINANCE

Hearings held at Montreal, Quebec, on Monday, May 14th, 1962.

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

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Mr. Gilles Mercure - Joint Secretary

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Montreal, Quebec,
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--- On resuming at 9.30 A.M.

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The brief of the Quebec Credit Union League.

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SUBMISSION OF THE QUEBEC
CREDIT UNION LEAGUE

APPEARANCES

E. A. Kelly	- Managing Director
George Grigg	- President
Henri Cormier	- Secretary
George Broderick	- Lawyer
Jean de Grandpre	- Chartered Accountant

MR. CORMIER: On behalf of the Quebec Credit Union League I would like to present Mr. Edward A. Kelly, Managing Director, Mr. George Grigg, President, I am Henri Cormier, Secretary, Mr. Jean de Grandpre, Chartered Accountant. Mr. George Broderick, our counsel has been detained and may appear later.

(Reads summary of brief.)

(See Volume 14A.)

THE CHAIRMAN: Thank you very much. Questions?

COMMISSIONER LEMAN: Your brief mentions Mr. Desjardins who was at the source of the movement in the province of Quebec. We have already received a brief from some of the Caisses Populaires. Conceptually in Mr. Desjardin's own philosophy what would you think was the direction that he thought the movement would take -- the type of thing

that the Caisse Populaire have established or more the type of credit union that you belong to?

MR. CORMIER: I really do not know what was in Mr. Desjardin's mind, but we have evolved from his writings and teachings the system of associations as we know them where we foster thrift and loans to members of a defined group.

COMMISSIONER LEMAN: But the one he established, was it more like a community type of organization, or was it more like a professional type of organization?

MR. CORMIER: A community type, I believe, sir.

COMMISSIONER LEMAN: You mentioned in your brief that you would rather like to rely on the National Associations to deal with certain questions, and particularly there is one thing in which this Commission is very much interested as it goes through the country, and it is the first one you have mentioned in your brief, the responsiveness of share business to changes in the return on shares, and that sort of thing. I hope you do not mind if we question you first along this line a bit, because we are very much interested in exactly that type of question. There may be regional differences in how people respond to monetary policy and stringencies of economic conditions. How do you go about distributing the results of your operations in the way of rebates

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or bonuses and that type of thing? Do you have certain criteria to follow for this purpose?

MR. CORMIER: Rebates are part of what might be called the profit of the operation that we turn back to our members who have in fact brought in the revenue, our borrowers.

COMMISSIONER LEMAN: But who decides how much will go back to the members in the form of rebates and how much will be dividends on shares and that sort of thing?

MR. CORMIER: We usually do that at our annual meeting and this is done at the suggestion of the manager of the individual credit union.

COMMISSIONER LEMAN: Could you describe for us what kind of discussion takes place, what are the considerations that you follow in deciding how much will go back as dividends?

MR. CORMIER: Perhaps Mr. de Grandpre could answer that.

MR. deGRANDPRE: If I may, the credit unions usually submit monthly statements with the results that the management know through budgeting the available profits, that is, the available accretion of income which will be in the credit unions' books by the year end.

I think the usual procedure would be in the last month of the operations when they know to the extent of practically 90 per cent what the profits will be, there is a computation made on the

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dividends which would be payable on the shares and usually a computation is made of the possible rebate of interest which is usually 10 per cent, 15 per cent, 20 per cent for the recent year.

The dividend in most cases would yield, depending on the credit unions, between 4 per cent up to 5 per cent, and I think there is one exception in Montreal which pays 5¼ per cent which is a high rate of dividend, but that would be due to the rapid increase in share capital which has been largely the biggest but apportioned between 4 per cent and 5 per cent, and it usually took care of the available profits, that is, the profit after deducting the 10 per cent statutory requirement of the Quebec Cooperative Syndicates Act. The 10 per cent is kept as a reserve and the remaining balance would be distributed practically entirely. That is why at the beginning of the brief we pose some questions. We put on page 3 the income of 200 credit unions for that year, totally $2,798,446; expenses $1,144,933 and retained earnings would be $1,653,453. That would be by the year end of these credit unions because at the annual meeting following the fiscal year's end the dividend and interest and rebates which are voted brings that down. That is why a little above the reserve amounted to $1,102,842. It clarifies that most of the profits except 10 per cent are thrown back to the members either as share dividend or an interest

rebate.

COMMISSIONER LEMAN: Well, if I understand your answer correctly you try to keep your dividends fairly steady, say, around 4 per cent to 5 per cent, and the balance goes back in the form of rebate of interest and dividends?

MR. de GRANDPRE: Yes, that is the general idea of the movement. Some small credit unions have not been able to give this interest rebate, but we find that when the credit unions increase in volume they can start adopting such a policy.

COMMISSIONER LEMAN: Well, your brief and the summary makes the statement that effectively the interest rates you use compare favourably with those charged by banks. Can you give us a rough comparison of interest rates charged by yourselves for certain purposes compared with what the banks would charge for the same purposes?

MR. de GRANDPRE: I would go on record to say that the interest rate varies between 3/4 of one per cent and one per cent per month which includes the services of insurance; loan insurance on a loan and savings insurance which is, as I say, included in this because the premiums are considered a proper expense of the credit unions. When the net profit is determined this has already been deducted.

I am just wondering if Mr. Kelly would be more equipped to make such a comparison of the interest rates charged by the banks, taking into account these bank charges for proper expenses which the banks consider to be a proper way of operating.

MR. KELLY: I do not think there is much I can add to what Mr. de Grandpre has said, although in that sense the interest rate charged by credit unions does vary between ½ and one per cent; up to one per cent per month, and that is the limit to which

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we ever go. Our insurance for loan protection is part of the interest rate, and I think we are fairly reasonable in our rates charged to our members.

COMMISSIONER GIBSON: Mr. de Grandpre, would your average rate work out to 8, 9 or 10 per cent per annum, or something of that kind? You take the interest, you say, and apply it against the outstanding loan and it works out to something over 8 per cent. That is a very rough kind of calculation, of course.

MR. KELLY: I would say it comes to 3/4 of one per cent in many cases.

COMMISSIONER GIBSON: Yes, but after you allow for rebate, which is something in the nature of 10 to 20 per cent, your effective rate would work out at 7 per cent or something like that on the average?

MR. KELLY: When you count the money paid for the loan it would average maybe 7½ per cent.

COMMISSIONER GIBSON: On the other side, looking at what you pay for your shares, as I think Mr. de Grandpre said, it varied from 4 to 5 per cent, or something of that nature, and in addition to that you insure the savings, do you not?

MR. KELLY: Yes.

COMMISSIONER GIBSON: And that is worth a certain amount. What would that be, one per cent per annum or something like that?

MR. KELLY: On our mortgage loans we charge 6 per cent plus one per cent which we say covers the insurance charges.

COMMISSIONER GIBSON: But you are paying something like 5 per cent including the insurance

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COMMISSIONER GIBSON: But you are paying

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MR. KELLY: That is right.

MR. de GRANDPRE: I think we should say at least one per cent. It might go to one or one and one-third per cent, but it would be at least one per cent as a minimum.

COMMISSIONER BROWN: In working out these rates of interest have you taken into consideration the fact that you are usually asking the borrowers to buy shares at the same time,which in effect is increasing their loan cost, is it not? One example you give is that a borrower pays back a loan at the rate of $10 per week plus $3 per week for shares.

MR. KELLY: That is not compulsory. If a member borrows $1,000 he might only have $5 or $10 in shares in the union and we do not ask for anything more in the way of share capital. The purchase of shares is not compulsory. We do encourage this if the borrower can possibly afford it, but if he is in bad straights we try to service him in the way of granting a loan and do not ask him to deposit very much money until he is in a better position to do so.

COMMISSIONER BROWN: But to the extent that you do accumulate share capital at the same time as a borrower is repaying a loan this is an increase in the rate of interest, is it not, because it delays the time at which the borrower could normally pay off the loan?

MR. KELLY: Yes, it takes a longer time so he pays that much more interest in the long run.

COMMISSIONER BROWN: Yes, and he is paying

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MR. KELLY: Yes, because instead of taking 12 months to pay the loan it takes perhaps 18 months.

COMMISSIONER BROWN: On this question of interest rates you state in the brief at some point that under the Act you may not charge a rate higher than one per cent on the unpaid balance.

MR. KELLY: That is right.

COMMISSIONER BROWN: There must have been an amendment to the Act that we have not been able to find. What section is that?

MR. KELLY: That has always been our policy.

COMMISSIONER BROWN: The statement is that it is in the Act. We cannot find it in the Act. Can you tell us where it is?

MR. KELLY: Off hand I cannot, but I know there is a section which states that the limit on loans is one per cent per month.

COMMISSIONER BROWN: I wonder if you could tell us the relevant section?

MR. KELLY: I am not sure of it, sir.

COMMISSIONER BROWN: Have you got the Act here?

Perhaps while you are looking that up someone could also tell us if there is any statutory limit on the return that can be paid on share capital?

MR. KELLY: None that we know of.

MR. de GRANDPRE: No, there is no such limit.

I wonder if it would be pertinent to add something at this stage, Mr. Brown? The only limit that there would be is toward the reserves in the credit

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COMMISSIONER BROWN: No, but the point is that in other jurisdictions there are statutory limits on the percentage return that can be paid on share capital. I cannot find any reference to it in this Act here and I wondered if there was such a limit.

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COMMISSIONER LEMAN: In practice you have found that an adequate interest rate for your purposes?

MR. KELLY: Oh, yes.

COMMISSIONER BROWN: There is one other thing I would like explained. On page 35 of your brief you are talking about borrowers, and you make the following statement.

> "There are others who are too conservative about the use of credit and the Committee can serve them better by suggesting changes in their programme of personal credit."

Does that mean that you actively encourage people to

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COMMISSIONER BROWN: I can understand that, but this statement says they are too conservative.

MR. KELLY: Well, that is what we were thinking. Some people in our own credit unions are very conservative in their methods of lending money to members. They may be afraid to extend credit too far and we try to encourage them to help the members in that sense by combining all their debts together putting them under one head. I think that is our thinking in that regard.

COMMISSIONER BROWN: You are referring to committees and not members?

MR. KELLY: Yes, committees.

COMMISSIONER BROWN: However, the whole discussion at that point of your brief as regard to borrowers.

MR. KELLY: We are referring to our own committees and their function.

COMMISSIONER GIBSON: Returning to interest rates, is there any flexibility in your interest rate structure or do your rates tend to increase when money is tight and decrease when it is easier to get, or do you stick to the same interest rate?

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rate. There are some credit unions which charge 3/4 of one per cent at times when they think they should do it, but I would say a very high percentage of our credit unions do not change the rate from one per cent, and at the end of the year when they see that they have a high profit they return it to the members in the form of rebates.

COMMISSIONER GIBSON: So that if the credit union did well, the effect of your own rate, let us say, would be to reduce it to some extent?

MR. KELLY: Yes, that is right, and some of them have gone as high as 25 per cent.

COMMISSIONER GIBSON: So that in the sense of rebates there is some variation in the rates?

MR. KELLY: It is not a direct variation, but an indirect one at the end of the year.

COMMISSIONER GIBSON: Yes, and this would not have anything to do directly with whether money was tight or not tight, but would depend on how the credit union did?

MR. KELLY: Yes, it would depend on the fast turn-over of money during the year.

COMMISSIONER GIBSON: Yes. Are there any other changes in credit conditions that are closely related to general monetary conditions?

MR. KELLY: There are times when we say to our members they cannot borrow any more than $100 at a time because money is tight.

COMMISSIONER GIBSON: Have there been such

rate. There are some credit unions which charge 3/4 of one per cent at times when they think they should do it, but I would say a very high percentage of our credit unions do not change the rate from one per cent, and at the end of the year when they see that they have a high profit they return it to the members in the form of rebates.

COMMISSIONER GIBSON: So that if the credit union did well, the effect of your own rate, let us say, would be to reduce it to some extent?

MR. KELLY: Yes, that is right, and some of them have gone as high as 25 per cent.

COMMISSIONER GIBSON: So that in the sense of rebates there is some variation in the rates?

MR. KELLY: It is not a direct variation, but an indirect one at the end of the year.

COMMISSIONER GIBSON: Yes, and this would not have anything to do directly with whether money was tight or not tight, but would depend on how the credit union did?

MR. KELLY: Yes, it would depend on the fast turn-over of money during the year.

COMMISSIONER GIBSON: Yes. Are there any other changes in credit conditions that are closely related to general monetary conditions?

MR. KELLY: There are times when we say to our members they cannot borrow any more than $100 at a time because money is tight.

COMMISSIONER GIBSON: Have there been such

times in your organization within recent years particularly?

MR. KELLY: I would say in 1958 and 1959 we experienced quite a bit of that.

COMMISSIONER GIBSON: Quite a few of your credit unions did say to their members that they could not borrow any more than $100?

MR. KELLY: Perhaps not as low as $100. This would depend on the size of the credit union. Some of our larger credit unions would scale down the loans that they would permit to their members.

THE CHAIRMAN: Why is that? Was that because of certain monetary policies initiated by the Bank of Canada?

MR. KELLY: I would not say that was the guide, sir.

THE CHAIRMAN: Was it because you did not have sufficient money?

MR. KELLY: It would be because of conditions in the credit union at the time, that is right.

THE CHAIRMAN: There were perhaps more applications for loans than usual?

MR. GRIGG: That is right, sir.

THE CHAIRMAN: You could not meet the applications so you rationed the money?

MR. GRIGG: Our principle is to take care of the small lenders first, and then take care of the larger ones as sums become available.

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MR. GRIGG: Our principle is to take care of the small lenders first, and then take care of the larger ones as sums become available.

THE CHAIRMAN: But the total amount in dollars of your loans during such a period would perhaps be less than the year before?

MR. GRIGG: No, the assets have never gone down.

THE CHAIRMAN: It is just a question of having more demand for loans than usual?

MR. GRIGG: Yes.

THE CHAIRMAN: Not because of an increase in the amount of money given out?

MR. GRIGG: That is right.

THE CHAIRMAN: That is about what it amounts to.

COMMISSIONER BROWN: Do you find there is a coincidence between the increasing demand for loans and the tightness or slowing down in the build up of share capital?

MR. de GRANDPRE: I wonder if I might answer that question. In answering this question one must keep in mind the League's standpoint. I think we should say that there was a trend or pattern in this regard. Many credit unions, for instance, had a very steady growth in savings during that period. In other words, some credit unions, and I think Mr. Kelly will remember this, had available funds at that time in large amounts, whereas other credit unions definitely seemed to be influenced by monetary shortages. The loans were piling up in actual amount so that for a few months they were behind

and they had to reduce loans for perhaps two or three months while they were behind in loan offerings until they caught up with the situation, but there definitely was no such influence directly. I would say that we felt those conditions in a very small way. Operations slowed down, but there was a steady increase in visible assets in all credit unions. However, we could not service the loans in many credit unions as easily as we were able to do before. We had to impose a delay and say to the member, for instance, that a certain portion of a loan was accepted by the committee on credit, however due to the money shortage he would have to wait until next month. However, in any event, things straightened out after approximately three months.

COMMISSIONER BROWN: We gather this was not caused by a monetary situation, but was there an industrial pattern?

MR. de GRANDPRE: I would say it was a result of an industrial pattern more than anything else.

COMMISSIONER GIBSON: Did you try to increase the value of share purchases by raising your interest rates at that time?

MR. de GRANDPRE: One large credit union attempted to do this by increasing the rate on savings rather than increasing the share capital. There was a response to this policy, but not to the extent that we expected. There was a steady in-

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flow of money.

COMMISSIONER GIBSON: That would not change quickly, I take it.

MR. de GRANDPRE: The thing about this return is that it can only be made after the annual meeting. In other words a dividend is declared by the floor whereas the interest on savings can be changed more flexibly by management.

THE CHAIRMAN: Otherwise it would not make much difference, would it, because as I understand it the capital is repayable subject to demand?

MR. de GRANDPRE: That is right. Both of them are actually.

THE CHAIRMAN: Yes, so that the only difference is that the one cannot be changed as readily as the other?

MR. de GRANDPRE: That is right.

THE CHAIRMAN: I notice that according to your brief you are studying the possibility of setting up a stabilization fund. Reference to this study appears at page 80 of your brief. I see that the amount of the annual investment of each credit union shall be a sum equivalent to one-tenth of one per cent of its total shares and deposits made to the fund before March 31 of each year. Has that fund yet come into being or is it still under consideration?

MR. de GRANDPRE: It is under consideration and will be brought before a special general meeting,

[illegible]

COMMISSIONER GIBSON: That would not change [illegible]

[illegible]

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MR. de GRANDPRE: It is under consideration

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I understand.

THE CHAIRMAN: Is there a need for such a fund?

MR. de GRANDPRE: I would not say an immediate need, but I would say rather that it is sort of a precaution against the future and may create a better feeling among members of credit unions who will face critical situations. We had an example of that in the movement in Ontario and it is realized that a thing like that would certainly help the operation of the League and would help the movement in general because it would be a type of insurance against economic disasters.

THE CHAIRMAN: You mention an instance in Ontario: Was that where there was a default of some kind?

MR. de GRANDPRE: No, that was the case of A.V. Roe where an industry folded up within a short period, and members were going back to England. It was done very smoothly, I understand, but from a business standpoint I believe a stabilization fund would be more appropriate.

THE CHAIRMAN: Well, a stabilization fund is to be used in some extraordinary situation.

MR. de GRANDPRE: Which is an extraordinary situation only.

THE CHAIRMAN: I recall in Ontario on one occasion there was one of the unions which became insolvent because the person in charge of the affairs of it -- he did not abscond with the money, but he apparently invested the funds in certain investments that turned out badly and all the members lost heavily, but I understand other credit unions came to their help.

MR. de GRANDPRE: Yes.

THE CHAIRMAN: But there was no legal requirement for them to come to their help; they just did. I was wondering if the fund would also apply to special situations like that.

MR. de GRANDPRE: It would.

MR. GRIGG: Our Act does not permit us to make outside investments. We can only invest in our members and in government securities, but over and above

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that our inspectors are watching even other investments.

THE CHAIRMAN: Those are the inspectors appointed by the union league?

MR. GRIGG: Yes.

MR. KELLY: In the Province of Quebec, if that had happened here, all our credit unions are covered up to 100 per cent protection. It would have been protected by a bond.

THE CHAIRMAN: But there is always the chance of someone absconding also.

MR. GRIGG: We have a 100 per cent bonding.

COMMISSIONER MACKINTOSH: Your bonding won't cover you against bad business judgment.

MR. GRIGG: No.

MR. KELLY: If it is on the faithful performance of the manager, yes.

MR. de GRANDPRE: Yes, it is pretty well covered. The idea of the stabilization fund would be, in the minds of the management of the League -- there would be a complement of this insurance programme. We feel, if they should encounter hardship, then the stabilization fund would come in. Otherwise, if there is any misappropriation of funds or bad loans -- all this is insured. From the standpoint of the members, their money is secured.

COMMISSIONER BROWN: You carry insurance against bad loans?

MR. de GRANDPRE: Oh, yes.

MR. GRIGG: No, not bad loans.

MR. de GRANDPRE: You may keep it insured.

MR. GRIGG: If you have a sizeable loan and you want to keep it on your books and pay the insurance premium, once that member becomes deceased -- it is insurable until you find out he has been declared legally dead, and then you make application to the insurance company. I don't know whether there have been any claims on that basis.

MR. KELLY: There has been one.

COMMISSIONER BROWN: That would not be standard practice.

MR. GRIGG: No. You cannot declare it as a bad loan and go to the insurance company.

MR. de GRANDPRE: Actually, the rate is 15 cents for $100. However, say a large loan was made to a person who became insolvent, it could still be carried on the books and on the death of this man the credit union would collect 100 per cent.

MR. GRIGG: We do not have direct loan insurance. We do not declare any loan as a bad debt.

COMMISSIONER MACKINTOSH: How do you insure a satisfactory rate of mortality among the insolvents?

COMMISSIONER BROWN: Apparently, it is a low rate.

MR. GRIGG: Our statutory reserve does take care of any loans which we declare as delinquent and impossible to collect, and it is 15 cents on $100. That is what our experience has been. So, our statutory reserve funds are more than adequate to take care of that type of loss.

COMMISSIONER LEMAN: I would like to ask a

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COMMISSIONER [illegible]: I would like to a[illegible]

couple of questions about the relationship of the League to the individual credit unions. On page 5 of the brief you state that there is a three-fold control or supervision of the credit unions through the Act itself, the by-laws, and then you say the inspection system maintained by the League. A little further on you say the League was formed in 1941, so, in effect, while it can be a supervisory and regulatory association, in practice it is just a big brother whose chief object is to help member credit unions with their problems. In one spot you say there is an inspection system, and then you seem to imply it does not work in practice. What is the fact?

MR. KELLY: I don't think the reference there is connected in that sense. We definitely have a very good inspection department. We go in and make inspections and audits at the end of the year, and that is a separate department. When we say "big brother", we teach our credit unions how to work, and work with our board of directors on an educational programme, and try to assist our committees to function, and counsel our members.

COMMISSIONER LEMAN: So you do have an audit system?

MR. KELLY: Definitely.

COMMISSIONER LEMAN: And is it compulsory for a credit union to belong to the League to accept this audit?

MR. KELLY: If they are members of the League,

they accept it.

COMMISSIONER LEMAN: They must do so?

MR. KELLY: Yes.

COMMISSIONER LEMAN: Suppose the League auditors do find something they don't feel is desirable in the way the business of the credit union is conducted: Do they have any authority over the individual?

MR. KELLY: We call the board together and point it out and have it rectified. We haven't had any objections to that.

COMMISSIONER LEMAN: But it is on a voluntary basis; there is nothing in the by-laws that gives the League any authority over the individual union?

MR. KELLY: I would not say it is spelled out, no, but they accept the fact we are trying to guide them on the right track, and if we say, "You are breaking the law", they listen to us. We have had people removed from the board of directors and had managers changed, and they have accepted that.

COMMISSIONER LEMAN: So each union is audited at least once a year?

MR. KELLY: Yes, and every time a manager changes. Before the new manager comes in we give an audit for the new manager.

COMMISSIONER BROWN: How big a staff do you have?

MR. KELLY: We have three men on the road. We should have more, but can't afford it.

COMMISSIONER BROWN: Do they have to make this audit at least once a year?

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COMMISSIONER BROWN: How big a staff do you

MR. KELLY: At least once a year. For our new groups, we visit them quite frequently.

COMMISSIONER BROWN: That means each member of your staff is around to a different credit union each week -- more than once a week?

MR. GRIGG: They come heavily in the first three months. We are required to have our annual meeting within 60 days of the year end, and a lot of the credit unions are on the fiscal year, so our heaviest concentration of that type of work is in the first two months. After that, they go around too. Our credit unions are not that large, as we have 221 into the 38 million. We do not have too many large ones, so they can go in and give a very good audit, or inspection, as we call it -- very good inspection of the books in a day, so that they are able to do these inspections in time for our annual meetings. Then they go back during the year to see them occasionally whenever they feel it is necessary.

COMMISSIONER BROWN: Along a slightly different line, credit unions have grown very quickly and are now really large business taken as a whole across the country: Undoubtedly, one of the contributions to this growth has been the exemption from taxation; do you think they have become strong enough that they could be subject to taxation now?

MR. GRIGG: We would not like to think so, because we do not think that is the reason for the growth. The growth is because of the common bond between the members, and in community types of credit unions such

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as you have seen and heard of in Western Canada there is this common bond, and it is just a place for them to put their money in for saving and get their loans and financial assistance as they need it. We do not always feel that they are getting stronger and could be taxed, because the same principles are governing as they grow bigger as governed when they were smaller.

COMMISSIONER BROWN: You said you did not think the taxation had contributed to this growth.

MR. GRIGG: The lack of taxation?

COMMISSIONER BROWN: Yes.

MR. GRIGG: In my own experience I would feel not.

COMMISSIONER BROWN: If it has not why would you be so regretful to see it?

MR. GRIGG: Because it would be taking a little more from our members and probably more costly in our operation.

MR. KELLY: I would say we are still a non-profitable organization. All the profits of our income go back to the members and members only.

COMMISSIONER BROWN: This is true of every organization?

MR. KELLY: Not every one. Every big organization has its shareholders, and anyone can purchase in a store. Our loans can only be loaned to members only, and no one else.

COMMISSIONER BROWN: Isn't it true, though, that these -- yours are mainly the industrial type, but

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COMMISSIONER BROWN: Isn't it true, then, [illegible] these -- yours are mainly the industrial type, [illegible]

anybody that comes within the common bond can become a member and get a loan?

MR. KELLY: But he must be within the common bond; he must be working within the industry. Outside he would not be allowed to be a member. In a community group, he must reside within the community or, if it is a church, within the church group.

COMMISSIONER BROWN: But anybody within the organization can become a member?

MR. KELLY: Oh, yes.

COMMISSIONER BROWN: And thereby qualify to borrow?

MR. KELLY: Yes; he must at least have one $5 share.

MR. de GRANDPRE: May we underline this development of growth in the credit unions has had as its source an increase in share capital. In other words, the growth of the movement is not through the creation of large surpluses over the years. I think we have to recognize this as a standard policy, that most of the credit unions distribute approximately 85 to 90 per cent of their profits back to the members. In other words, over the years we find the reserves amounted to 1,102,000, which is a very small growth through profits when we consider the large amount of assets. In other words, this large growth is not through exemption from taxes. It is mainly through a large increase in the savings of the members. It is anincrease of shares and deposits over the years rather than an accretion of large surpluses.

COMMISSIONER BROWN: That is quite clear.

MR. de GRANDPRE: This is the point we want to stress.

COMMISSIONER BROWN: But the exemption from taxation enables you to return to people and to make dividends to shareholders.

MR. de GRANDPRE: Yes. Let us say the direct effect of taxation in this case would be a reduction of the benefits given to the members.

COMMISSIONER BROWN: Yes.

MR. de GRANDPRE: Not to the credit union. It would be directly an increase effectively in the rate of interest charged by the credit unions, because the more we pay out of the profits the less we would have to distribute to the members. That would be, I imagine, a resume of this effect of taxation on these credit unions.

COMMISSIONER GIBSON: Can you give us an idea as to why the credit union, or particularly your branch of the movement has grown so rapidly in the last few years? What are the factors behind this growth? You don't give much weight to the tax factor.

MR. de GRANDPRE: I imagine the common bond seems to be at the root of it. There seem to be Communistic relations between the members: They like to congregate and be members and be interested in the meetings. There is an educational programme, and all these side objects of the League seem to bring dividends, because it is definitely an investment of funds through shares and deposits. The members seem

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COMMISSIONER GIBSON: I notice in your list of members, I would say the great majority of them were credit unions in a particular company.

MR. de GRANDPRE: Yes, industrials.

COMMISSIONER GIBSON: This is the rapid element of growth in recent years, isn't it?

MR. de GRANDPRE: Yes.

COMMISSIONER GIBSON: These are related frequently to labour unions?

MR. de GRANDPRE: No, they would not be.

MR. GRIGG: There is no influence from labour unions to influence members to join a credit union. Generally speaking, the credit union operates of its own in a given company, and if the company would grow in size with more employees, then the credit union will get more members, and their savings, and so on, will go up. With the progression of years, even three years, some industries have increased quite a lot in the numbers of employees, so that with this progression the credit unions would grow in size.

COMMISSIONER GIBSON: There is no particular relationship between the growth of the credit unions and the recent development of the trade union movement?

MR. GRIGG: No, no. There may be some credit unions which are sponsored by trade unions, but very few; and, generally speaking, even they are not influenced too much by their labour unions. They have

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a separate board of directors which receives, you might say, its education from the League.

COMMISSIONER GIBSON: In other words, when your people go into a company or plant they don't necessarily work through the trade union?

MR. GRIGG: They go through the personnel department.

COMMISSIONER GIBSON: There are several members interested perhaps, and they work through them?

MR. GRIGG: That is the way most of them are formed.

MR. KELLY: We like to see management first. If management gives its blessing, we know it is going to be O.K. I would say a lot of our growth is attributable to the mutual aid self-help programme, which we call it. Our members help themselves and they work with themselves on the common bond programme. The change in the demand for credit may have forced a lot of this.

COMMISSIONER GIBSON: All over the country there has been this rapid increase in the demand for the kind of union you are talking about.

MR. KELLY: We are able to give service right on the premises.

MR. CORMIER: Voluntary service by the various officers and committee members right on the plant -- spread out.

COMMISSIONER LEMAN: We have heard from credit unions in other provinces, and there is a development elsewhere we don't find here, and that

is this chequing privilege as they call it -- although they were always careful not to call it chequing; they called it "orders". You don't provide that service here. If the member wants to withdraw some funds, he has to come to your office -- he cannot just draw an order on the credit union?

MR. GRIGG: He is issued a credit union cheque, which is on the credit union's bank, or they make it in cash if they have cash on hand; but, generally speaking, it would be a cheque on the credit union's bank.

COMMISSIONER LEMAN: Should we gather from your brief that you are against developing a chequing service?

MR. KELLY: We have such a high percentage of small credit unions we would not want to see them touching the chequing service. They are too small, and they don't get their accounting up to date. Take a credit union of less than 200,000: I would not want to see them touching chequing. They would not be able to service their members.

COMMISSIONER LEMAN: Would you see some dangers for the credit union in the development of such a service?

MR. KELLY; I can see a terrifically overdrawn account or N.S.F. cheques; that is one of our worries. We think the banks are giving the service they should be giving, and we don't want to walk into that field. There has not been a demand in our members for it.

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COMMISSIONER LEMAN: Could you give us an idea of what I would call the turn-over of funds through withdrawals etc., as compared with the total amount on deposit?

MR. KELLY: It would be very low. Some groups have a high turn-over and others don't seem to at all; they just seem to be piling up.

MR. de GRANDPRE: Very small, I would say; it seems to be a steady increase.

MR. KELLY: I have seen the loans 100 per cent turn-over in a year.

COMMISSIONER LEMAN: There is one item in your financial statements that I would like to get your comments on. It is on page 74 under the title "Loans Payable: 60. Loans from Quebec Central; Loans from Banks, and Loans from Others". What are these loans from others?

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MR. GRIGG: Lots of credit unions loan in large amounts. I think Mr. de Grandpre handles larger credit unions and he may be able to give the answer for that large amount from others.

MR. de GRANDPRE: When you consolidate the balance sheets loans from others would include a very large percentage from banks, from chartered banks.

MR. GRIGG: There is a possibility of that.

MR. de GRANDPRE: You take, for instance, the consolidation would have a few hundreds of thousands of dollars, I would say that would come from mainly loans from the Montreal city and District Savings Bank, Bank of Montreal, National Canadian Bank and Bank of Commerce. That would be loans obtained by credit union members of the League direct through their bank. That would be chartered banks of Canada. It is very hard to say by heart, but I would say at least three-quarters of that would be from banks. I know of three credit unions who would borrow practically $400,000. That is why I can venture to say that three-quarters of that would come from chartered banks of Canada. That is being loans obtained by member credit unions of the League directly from the bank they do business with.

COMMISSIONER LEMAN: So item 61 would be loans from banks by the League itself, whereas loans from others would be loans from banks but drawn by the individual credit unions directly, is that right?

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COMMISSIONER LEMAN: So item 61 would be [illegible]

[illegible]

MR. GRIGG: Interlending goes on, too, from one credit union to another.

COMMISSIONER LEMAN: But if it is interlending between units in the group, if you have a consolidated balance sheet it should be lumped. In the consolidated statement, only third party items should be shown, not items between units.

MR. de GRANDPRE: I think we would have a better idea by saying 61 and 62 should be grouped together and would represent chartered banks and interlending.

MR. GRIGG: But before that you mentioned that one credit union may have a $500,000 loan from a bank. I know that.

MR. de GRANDPRE: That should have been only one item, 61 and 62, that should have read "from Canadian banks and affiliated credit unions".

COMMISSIONER BROWN: Perhaps those figures should be the other way around.

MR. de GRANDPRE: No, I think they should form only one total for $1 million because this has not been done with the idea -- I am right in saying, Mr. Grigg? -- it has not been done with the idea of seeing a very clear division between the two groups. You know, in 62, where there is definitely a bank loan of some $400,000. That is included in loans from others. It may be when the office work was done it may be the classification was not done properly. We tried to be accurate, but it was done under pressure. I would say that

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61 and 62 should be studied by the Commission jointly as being from banks and member credit unions.

COMMISSIONER LEMAN: Again this deals with the relationship between the League and the individual units. Would you encourage units to loan to each other instead of going to the parent body -- I will call it the parent body -- being the League?

MR. GRIGG: We are trying to educate them to use Central only, but some still prefer to loan it directly.

COMMISSIONER LEMAN: Are there different interest rates, or are there reasons why they would prefer to go directly to another credit union?

MR. GRIGG: They may get a better interest rate. They would get it maybe at 5 per cent, whereas we would still charge 6 per cent and they could get a loan directly from maybe one credit union at 5 per cent.

COMMISSIONER LEMAN: What do you grant individual credit unions if they have money on deposit with you on a term loan?

MR. GRIGG: Well, we have not been giving that any consideration. If they want the loan they just ask for it directly. You mean the interest we pay on share capital?

COMMISSIONER LEMAN: Yes.

MR. GRIGG: $4\frac{1}{2}$ per cent.

MR. CORMIER: Some can short circuit that

by getting their 5 per cent whereas the borrower through Central would have to pay 6 per cent. The borrower would only get $4\frac{1}{2}$ per cent so they have an interchange between themselves. The other one per cent is for the operation of Central. Central has to be operated. There are some costs of operating Central, so they have to ask 6 per cent.

COMMISSIONER GIBSON: Part of Commissioner Leman's mind was referring relative to some of the Centrals in other provinces which are small, and they keep just a little over one per cent of their assets, which is a very small percentage.

MR. GRIGG: Mainly because our credit unions do not have those surplus funds. Most of our credit unions are able to loan out the money to their members. Centrals are built out of surplus funds and our credit unions do not have these surplus funds to put into Central.

COMMISSIONER GIBSON: Do you think a Central will develop as your unions develop into relatively large organizations and that eventually they will keep a higher percentage of their funds with Central.

MR. GRIGG: We feel eventually they will.

MR. CORMIER: This is the education that is looked for.

MR. de GRANDPRE: That would be very gradual because the trend is for each credit union to manage its business and distribute as much as they can.

COMMISSIONER GIBSON: But every credit union

you encourage to keep a certain reasonable level of liquidity, do you not, so they have some liquid assets? Does it matter too much whether they keep the liquidity in the form of short term investment or put it with the Central? What I was trying to get at was why they put so little with the Central.

MR. de GRANDPRE: Demands have not been very heavy on Central. They have loaned to officers of credit unions who cannot borrow directly. But I mean there has never been a heavy pressure which would force the management of the Central to solicit larger investment through Central from affiliated credit unions. The demand has not been there.

COMMISSIONER GIBSON: When you have here such a rapidly growing organization with a heavy demand for loans on the individual credit unions, what I cannot understand is why have they not been going to the Central and saying: "I would like to borrow some money"?

MR. de GRANDPRE: The idea is that Central as it stands now is organized to service the loans of the officers of the various credit unions.

COMMISSIONER GIBSON: Then its main purpose is different, is it?

MR. de GRANDPRE: Well now, that is the main source, but that is expanding now. There has not been any need -- there are some things, for instance, which will be put into effect, but up to now mostly it has been used as a channel to

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short circuit the requirements of the Quebec Cooperative Syndicates Act which says an officer of a credit union or supervisory committee cannot borrow from his credit union and this organization has been used to service loans to these officers.

COMMISSIONER BROWN: This is not what your submission says. The consolidated statement showed that the member unions have a deposit of $352,000 with Central and have borrowed from Central more than half of it, $210,000.

MR. GRIGG: In the last two years we have had a trend where the credit unions are starting to borrow from Central but previous to that it was members only.

COMMISSIONER BROWN: This may be possibly because you have not got the same type of seasonal business that operates in other provinces where certain unions have surpluses at various times of the year and the Central serves as a clearing house for this surplus.

MR. CORMIER: Yes, whereas we do have a steady rate of business where we do not have too many bunches of surplus.

COMMISSIONER BROWN: Mr. Gibson was bringing up the point about liquidity. What liquidity ratio do you recommend to your members?

MR. GRIGG: We try to get it as large as possible, between 5 and 10.

COMMISSIONER BROWN: What do you mean by that -- cash?

MR. GRIGG: As much as possible in the bank so that they can immediately handle any withdrawal because that is the biggest problem. Loans they can always defer; members when they want a withdrawal want it immediately so we try to have it there. Central will do the same thing. We try to service withdrawals immediately.

COMMISSIONER BROWN: One of the points Mr. Gibson was bringing out was that you might encourage them to keep this in a Central and thereby kind of

consolidate the whole liquidity rate.

MR. CORMIER: But Central would have this problem of having to keep a high liquidity. Most of our liquidity would be kept in chartered banks and Central takes care of our reserves rather than liquidity.

COMMISSIONER GIBSON: I was just asking a question, Mr. Brown. I was not objecting to this.

COMMISSIONER BROWN: Oh no, we are trying to find out your thinking in doing things one way rather than another.

MR. CORMIER: I think this would be where we encourage our credit unions to deposit more of their reserves, more than their actual liquidity because if Central were working as a clearing house and we had a chequing system the situation would be different but as it is now these deposits with Central are mainly, I think, you would find a statutory reserve as required by law which we have to deposit in a separate account other than our main account with the chartered banks. We are not supposed to be lending that money out. It is supposed to be set up as a reserve in an account other than our main account. When we are talking about doing business it is strictly with our assets and not our liabilities which our reserve fund is.

COMMISSIONER LEMAN: Do you have any statistics showing how much borrowing there has been between units in a group?

MR. GRIGG: You mean from one credit union

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COMMISSIONER LEMAN: Yes.

MR. GRIGG: Actually, it is very, very small. I could name five credit unions who are the only ones who ever do it. The other credit unions have enough to loan out.

COMMISSIONER LEMAN: In your recommendations you suggest that it would be good if there was a development of some legislation in the Province of Quebec to cover this movement. Have you made any approaches to the authorities about this over the years?

MR. CORMIER: The Act is on the point of being under revision now. It is a Government Bill that is going forward. We have made a little submission and we hope when the first reading is out we will be able to make more concrete suggestions along those lines. We believe this to be presently in this session as a first reading. We have our counsel interested in working on that now as a matter of fact.

COMMISSIONER BROWN: I gather that you have no direct relationship with the Caisse Populaire as such?

MR. CORMIER: That is right, sir.

COMMISSIONER BROWN: Are they a competitive element?

MR. GRIGG: No, we have very good public relations with them but they have a different service. They are servicing their members on a par with which we are and they do a chequing service which we do not.

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THE CHAIRMAN: You do not overlap?

MR. GRIGG: I would say there are members who belong to credit unions who are also members of Caisse Populaire.

THE CHAIRMAN: Well, the one is concentrated more in certain areas and the other in other areas, would that be so?

MR. GRIGG: No, the Caisse Populaire cover the province. They blanket the province pretty well. After all, they have 14,000 members and we have only 200, I mean member private unions.

COMMISSIONER BROWN: Is there some explanation for the disparity in growth?

MR. de GRANDPRE: 60 years probably.

COMMISSIONER BROWN: Is it because of the different approach, because of the slightly different philosophy and slightly different services?

MR. GRIGG: I think primarily they were started to service French speaking parishes and I think now they are servicing other than that whereas we were primarily started for industrial only so we would be on a smaller scale.

COMMISSIONER GIBSON: Your loans are mostly personal loans?

MR. CORMIER: Yes.

COMMISSIONER GIBSON: I notice you say the average loan is around $400. What sort of range would there be there -- what to what? If your average loan is $400 what would be the highest and the lowest?

MR. CORMIER: Probably $500 up to $2,000.

THE CHAIRMAN: You do not overlap?

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COMMISSIONER GIBSON: It would not go over $2,000?

MR. GRIGG: In the larger credit unions.

MR. CORMIER: At those rates of interest if you get into $6,000 or $7,000 loans they would have other sources of credit, I think.

COMMISSIONER GIBSON: Do you act much in the mortgage loan business?

MR. CORMIER: Well, you see there we have $1 million.

MR. GRIGG: No, that is just the large credit unions.

COMMISSIONER GIBSON: A pretty small percentage?

MR. GRIGG: Yes.

COMMISSIONER GIBSON: Is this something which develops, when a credit unions gets large they tend to go into this business?

MR. CORMIER: When they get that large they may have surplus funds which they would use as mortgage money but I would say you would have to be quite large before you could undertake mortgages because of the rate of turn-over. In our smaller credit unions we know this turn-over is a very small percentage in order to keep on servicing the members.

COMMISSIONER GIBSON: Do you regard this as a natural evolution that as they get big they tend to get into medium and long-term loaning or do they remain mostly with the personal loans?

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COMMISSIONER GIBSON: Do you regard this as a natural evolution that as they get big they tend to get into medium and long-term loaning or do they remain mostly with the personal loans?

MR. GRIGG: There certainly would have to be a ratio in larger credit unions between money and mortgage loans to personal loans if they intend to maintain the 4 or 4½ per cent dividend, because with these insurance programmes that we are carrying on, and considering that we are paying 4½ per cent in rebates there is not much left out of the one per cent per annum that we charge. That in turn means that if there is too high a ratio of mortgage monies the possibility of paying rebates and dividends is limited.

COMMISSIONER GIBSON: Do you make any appreciable number of loans to co-operatives?

MR. KELLY; None at all.

COMMISSIONER GIBSON: You do not make business loans except in the sense of personal loans to members who might be in business?

MR. KELLY: That is right. The member would still have to go to a community group because none of our industrial members have businesses on the side.

COMMISSIONER GIBSON: This would only be done through community groups?

MR. KELLY: There are only a few loans made to members who have small businesses.

THE CHAIRMAN: What sort of mortgages would you buy?

MR. KELLY: First mortgages only.

THE CHAIRMAN: Would you give us some idea of the amount of the mortgage that you would be interested in?

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MR.GRIGG: We would be interested in mortgages in the amount of $8,000 to $10,000 probably.

THE CHAIRMAN: Mortgages of $8,000 to $10,000?

MR. GRIGG: They are generally on single units or duplexes which would probably require $14,000. They would not be on anything more than duplexes.

MR. de GRANDPRÉ: On the average they would be under $10,000.

MR. GRIGG: Yes.

MR. KELLY: Our loan protection stops at $10,000 and we try to keep at that level.

COMMISSIONER MACKINTOSH: I recall asking questions about mortgage loans in another province and discovering that quite a substantial fraction of them were not loans for the building of houses or the acquisition of real estate but merely loans for which security had been taken in the form of a mortgage, and the purpose of the loan was quite different.

MR. GRIGG: I believe ours are strictly mortgage loans for the acquisition of property.

THE CHAIRMAN: Thank you very much gentlemen. We found your brief very interesting indeed and will give it very careful consideration.

MR. GRIGG: Thank you.

THE CHAIRMAN: The Commission will now adjourn until tomorrow morning at 9.15 when we shall hear briefs from The Laurentide Finance Corporation, The Industrial Acceptance Corporation and Business Dynamics.

---- Adjournment.

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CREDIT UNIONS

in the

PROVINCE OF QUEBEC

A Brief Presented To

THE ROYAL COMMISSION

ON BANKING & FINANCE

By

THE QUEBEC CREDIT UNION LEAGUE

May 1962

3025 Sherbrooke St. W.,
Apt. 33
Montreal 6, P.Q.

FOREWORD

This brief has been prepared, and is submitted by the Quebec Credit Union League which represents 221 Credit Unions in the Province of Quebec.

This brief is restricted in presentation to the operation of Credit Unions in the Province of Quebec.

These Credit Unions are separate and distinct from Les Caisses Populaires with which there is no affiliation or working arrangements.

Among the subjects which are suggested as pertinent matters for comment in briefs to be submitted by Credit Unions to the Royal Commission on Banking are several to which no reference is made in this brief, because we consider they come within the scope of the National Association of Canadian Credit Unions. We have, therefore, refrained from expressing our views on:

1. The responsiveness of share business to changes in the return on shares.
2. Views on the capital market.
3. The proper field (s) of activity of Credit Unions.
4. Relationship with other intermediaries.
5. Adequacy of the regulatory system.
6. Financing of regulatory authorities.
7. Credit Union contacts with the Bank of

Canada and the Minister of Finance.

SUMMARY

"Tall Oaks from Little Acorns Grow".
(Lewis Duncombe - 1711-1730 -
De Minimus Maxima (translation))

The Credit Union movement in North America was born in the Province of Quebec.

A one-man rebellion against usurious money-lending practices in the Province of Quebec created a new chapter in the economic life of Quebec and, as history proves, of Canada and the United States.

Late in the nineteenth century, Alphonse Desjardins, at that time a Quebec legislative newspaper reporter, was incensed by the high rate of interest charges on loans. He studied the experience of Frederick William Raiffeisen, Mayor of Flammersfelt, a small town in Germany, the originator of the Credit Union idea, over 100 years ago, and established the first Credit Union in Quebec (and North America). In 1900 the first investment was "one dime and the total of the first receipts amounted to $26."

Under the laws then in existence, Desjardins had to accept responsibility for "every nickle invested in his Credit Union". This, he did and, undaunted by criticism of his wife and friends, he developed the first Credit Union. Today the Credit Union formed by

Desjardins now known as Caisse Populaire has assets exceeding $1,000,000; there are over 4,000 similar Credit Unions and Caisses Populaires in the ten provinces of Canada of which 221 are in Quebec, with a (Quebec) membership exceeding 82,000 men and women engaged in industry and government services.

In the last year for which statistics are available (1960), these Quebec Credit Unions:

Loaned $30,561,809. to members

Made available $2,700,401. to members for mortgage loans.

Their total investments amounted to $2,382,601.

Their reserves amounted to $1,102,842.

Their assets totalled $38,673,955;

Their liabilities of $38,673,955 included

(a) $34,701,222 owing to members;

(b) $1,216,969 owing for loans;

(c) $1,652,922 in surplus account and

(c) $1,102,842 in the reserves account.

Income of 200 Credit Unions for that year totalled $2,798,446; expenses, $1,144,993 and retained earnings, $1,653,453.

Shares held by members of Quebec Credit Unions in that year totalled 28,949,000 and members' deposits $5,752,222.

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Unions in the economic life of Quebec which can be multiplied a thousandfold if the comparison is extended to the other nine provinces and the United States.

Historical records prove that, following the lead of Desjardins, the first three Credit Unions of which we have knowledge were formed in 1937 in Montreal; 14 were in operation in 1941.

The underlying and basic rules under which Credit Unions operate in Quebec - as elsewhere - are simple in understanding, observance and application.

Credit Unions are groups of men and women banded together to create "a pool of dollars" out of their own resources which can be used to help fellow members when they need it, subject to well defined and stringent rules governing the loaning of monies by, and to, these members.

In connection with loans to members and losses thereon, the attention of the Commission is directed to the chapters in this brief which deal with

(a) the low loss record - 15¢ on every $100 loaned.

(b) the human methods employed in dealing with delinquent and uncollectible loans.

The scope of Credit Union operations has been extended far beyond the guiding motive

explained in the foregoing paragraph. Today, for instance, services are made available which are of inestimable value to members and their families. To quote only two illustrations - of which there is a more detailed explanation in this brief:- If a member becomes involved in what, to him, appear to be insurmountable financial difficulties he can, in strict confidence discuss them with officers or committees of his Credit Union. They, in turn, invariably find ways and means of overcoming these difficulties to a point where the member regains "peace of mind". This alone has repercussions, viewed from the humanitarian standpoint, inasmuch as the member becomes more tractable in his family life and at his work.

Educational committees too "spred the gospel" of the movement and demonstrate the many services which Credit Unions provide both for members and prospective members.

There is a threefold control and/or supervision over the Credit Unions in this province through:

(a) The Co-operatives Syndicate Act

(b) The by-laws governing the operations of the Credit Unions which call for a system of rigid checks and counter-checks to protect the investments of members either in shares or deposits, the granting of loans, and

financial accounting methods.

(c) The inspection system maintained by the Quebec Credit Union League.

Detailed explanations concerning (a) (b) and (c) are given in the brief and/or appendices.

The attention of the Commission is also directed to the loan and life insurance protection, made available at no cost to members.

The interest rates charged by Credit Unions in the Province of Quebec are reasonable and compare favourably with those charged by banks. They are considerably less than those charged by profit-making loan companies and by stores or other business establishments who depend in large or small measure on the instalment type of business.

This single fact suggests there are tremendous possibilities for expansion of the Credit Union movement in this province, and, it can be assumed positively, in other provinces of the Dominion.

QUEBEC CREDIT UNION LEAGUE:

This was formed in 1941. In effect, while it can be a supervisory and regulatory association, in practice it is "a big brother" whose chief object is to help member Credit Unions with their problems. At the same time it guides groups which plan to form a Credit Union through

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representatives; it counsels the officers of the new Credit Unions; it conducts an educational programme to enlighten the public in the movement. The Q.C.U.L. also maintains a watchful attitude on all matters of interest to the Credit Unions at the Provincial Legislative level.

QUEBEC CENTRAL CREDIT UNION

Is an ancillary body formed in 1951 whose functions are:

To satisfy the needs of Credit Union officers who are forbidden to obtain loans from their Credit Unions;

To assist member Credit Unions to meet demands when their resources are insufficient.

SUMMATION

The strength of the Credit Union movement in Quebec far outweighs the weaknesses. Notwithstanding, legislative control is not on a par with that in other provinces and other improvements in rules governing our operations are needed. Details of suggested improvements are contained in the recommendations listed in our brief.

HISTORY OF CREDIT UNIONS IN QUEBEC

It may be said that the Credit Union movement in Canada was born in Quebec. Historical records reveal that, in the latter part of the 19th century, a Quebec legislative reporter, Alphonse Desjardins, became concerned about exorbitant rates of interest charged for loans. He studied the experience of Frederick William Raiffeisen, Mayor of a small town in Germany, the originator of the Credit Union idea, and became so impressed that, in 1900, he decided to form his own Credit Union, now known as Caisse Populaire.

Under the laws of Canada then in existence, the person who launched such an enterprise showed unlimited liability for the total assets of the business. But Desjardins accepted this responsibility and despite this, and the grave concern of his wife, he set up a Credit Union. It is interesting to note that today, no member has any liability beyond his shareholdings.

Desjardins started very modestly for, as he described it, "the first investment was one dime and the total of the first receipts amounted to $26.000".

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Desjardins spent six years examining all the aspects of this first Credit Union to

determine its soundness. Then he began organizing additional Credit Unions (which were named Caisses Populaire).

In 1937 the first Credit Unions were organized in Quebec;

1. The Quebec Telephone Workers' Credit Union which was organized to service employees of the Bell Telephone Company;
2. Strathcona Credit Union, to service employees of the Y.M.C.A. in Montreal;
3. Charles C. Frosst & Company Credit Union, to service employees of that company.
4. Delphic Credit Union to service Sun Life Employees.

Four years later, 14 Credit Unions were in existence and they united to form what was then known as the Montreal Federation of Credit Unions. The following year, in 1942, the name was changed to the Quebec Credit Union League.

Today, twenty-five years after the formation of the first four Unions, there are 221 active Credit Unions in this Province. As at December 1960, there was a total membership of 82,000.

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HOW A CREDIT UNION IS FORMED

The organization and operation of a Credit Union in any part of Canada are guided by basic principles common to all.

As an illustration: The employees of XYZ Mfg. Co., in Quebec, desire to start a Credit Union. A minimum of 100 employees must signify their desire to be members, and the Co-operative Syndicates Act in Quebec stipulates that at least twelve of this number must sign a memorandum of association. Each employee who desires to become a member pays an initiation fee. He must buy at least one $5. share, but there is no restriction on the number of shares he or she can purchase. These shares, in units of $5., earn dividends as explained in other sections of this brief. The member can also invest any amount each payday.

There are, however, certain variations in the types of Credit Unions, for example, THE GROCERY BUSINESS. These Credit Unions function similar to other Credit Unions, with the exception that they are set up to assist the owners, through loans, to purchase the necessary fixtures, make improvements to the building, redecorate stores, etc.

In some cases, the amount of interest paid by borrowing members exceeds the amount needed to take care of the items enumerated. In such instances the excess of income is returned

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to the borrowing members in the form of an interest refund.

Use of Members' Funds

Money paid for shares and the investments of members are loaned to those seeking loans at an interest rate of 1% per month on the unpaid balance. This interest rate, if paid in equal monthly instalments, amounts to $6.50 per $100. per year.

This interest income is used to meet the normal costs of operating the Credit Union, to maintain proper reserves and undivided earnings, and to pay reasonable dividends.

A consideration that is usually entirely overlooked is that each dollar only need be invested once - but each dollar can be reloaned indefinitely.

For the sake of illustration, if one hundred persons form a Credit Union and each member regularly invests one dollar each week, during the first year 52 one-hundred-dollar loans can be granted to be repaid over a period of twelve months. During the latter part of the first year and the early part of the second year these loans will be repaid. Also, an additional one hundred dollars will be invested each week of the second year. Therefore, during the second year 104 one-hundred-dollar loans can be granted to be repaid over a period of twelve months. This progression will continue for so

long as the investments continue.

In actual practice the number of members will increase, the amounts invested and the amounts borrowed will vary, and the length of time taken for repayment will differ. Also, a few withdrawals will occur from time to time.

GROWTH OF CREDIT UNIONS IN QUEBEC

Since 1961, there has been a geographical trend and the movement is spreading continually throughout the Province of Quebec.

The growth of Credit Unions has reached such a point, and there is such a steady demand for new Credit Unions, that a management consultant is now studying our present set-up before presenting a plan dealing with the further growth and development of Credit Unions within the Province.

A tabulated list of Credit Unions in the Province of Quebec follows:

ACE CREDIT UNION, Canadian Allis Chalmers.
AERO CREDIT UNION, Canadian Pratt & Whitney
AIRCRAFT CREDIT UNION, Canadair Limited.
AIRPORT CREDIT UNION, TCA Dorval
ALVERNA CREDIT UNION, English-speaking Fraternities.
ANGUS SHOPS CREDIT UNION, C.P.R. Company.
B/A EMPLOYEES CREDIT UNION, B/A Oil Company
BCU CREDIT UNION, Bakers International Union.
BEAUHARNOIS CREDIT UNION, Beauharnois Powerhouse
BEAVER CREDIT UNION, Canadian Pacific Employees
BERACHAH CREDIT UNION, Community Park Extension
B.O.A.C. CREDIT UNION, B.O.A.C. Employees Credit Union.
BOMAC CREDIT UNION, Printers
BONA CREDIT UNION, Canadian National Railways, Bonaventure
BORDER CREDIT UNION, Spencer Supports

BP CREDIT UNION, British Petroleum Co.

BRANDRAM HENDERSON CREDIT UNION, Brandram Henderson

BREVNAT CREDIT UNION, Federal Civil Servants

BUFFALO CREDIT UNION, Order of Buffaloes, Iroquois Lodge

BUILDING PRODUCTS CREDIT UNION, Building Products Limited

BUSH EMP. CREDIT UNION, W. J. Bush, (Can) Ltd.

CAE CREDIT UNION, Canadian Aviation Electronics Ltd.

CANADA PACKERS CREDIT UNION, Canada Packers Limited

CAN. PETROFINA CREDIT UNION, Canadian Petrofina

CAN. SCHENLEY CREDIT UNION, Employees of Canadian Schenley

CAN. TABACOFINA CREDIT UNION, Canadian Tobacofina

CANAT CREDIT UNION, CNR Telegraphs

CANBANCO CREDIT UNION, Canadian Banana Company

CANBRO CREDIT UNION, Canadian National Express

CANCO CREDIT UNION, American Can. Co. of Canada

CAPITAL CREDIT UNION, Canadian Pacific Railway, Quebec City

CARTIER CREDIT UNION, Kraft Foods Limited

CARTONS CREDIT UNION, Cartons Limited

CENTURY CREDIT UNION, Community, Lachine

CHALMERS UNITED CREDIT UNION, Chalmers United Church

CHAPAIS CREDIT UNION, Residents of Chapais, Que.

CHECKERBOARD CREDIT UNION, Employees of Ralston Purina

CHERRIER CREDIT UNION, Canadian Arsenals Limited

CNR CHAMPLAIN CREDIT UNION, Canadian National Railways, Quebec

CNR SENNETERRE CREDIT UNION, Canadian National at Senneterre
COMPASS CREDIT UNION, Weaver Coal Company
CONSEIL DU TRAVAIL DU TROIS RIVIERES,
CONTAINERS CREDIT UNION, Shipping Containers, Bathurst
COPPER CREDIT UNION, Canadian Copper Refineries
CPI PAINT CREDIT UNION, Canadian Pittsburgh Industries
CRANE CREDIT UNION, R.L. Crane
CRAWFORD PARK CREDIT UNION, Community
CROYDON CREDIT UNION, Social & Municipal Association
CUSTOMS & EXCISE CREDIT UNION, Dept. of Customs and Excise
DARLING BROS. CREDIT UNION, Darling Bros. Emp.
DAWBRO CREDIT UNION, Dawson Bros. Ltd.
DENNISON CREDIT UNION, Dennison Mfg. Co. of Can.Ltd.,
DEPCO CREDIT UNION, Dominion Electric Protection
DIAMOND CREDIT UNION, Dominion Glass Co.
DOMBRICO CREDIT UNION, Dominion Bridge Co., Lachine
D. DONNELLY CREDIT UNION, D. Donelly, Ltd.,
DRUMBUSFORM CREDIT UNION, Drummong Business Forms
EASTERN ABATTOIRS CREDIT UNION, Eastern Abattoirs
E. B. EDDY CREDIT UNION, E. B. Eddy Co.
ELCON CREDIT UNION, Otis Elevator Co.
ELECTRICAL CREDIT UNION, Electrical Construction Workers
ELMHURST CREDIT UNION, Elmhurst Dairy
FAIRWAY CREDIT UNION, Royal Typewriter
FEDERATED CREDIT UNION, Federated Metals
F.E.S.C.T. CREDIT UNION, Federation of English Speaking Catholic Teachers.

RE CREDIT UNION, Canadian National at

CONSEIL DU TRAVAIL DU TROIS RIVIERES,

CRAWFORD PARK CREDIT UNION, Community

CROYDON CREDIT UNION, Social & Municipal Association

and Excise

DENNISON CREDIT UNION, Dennison Mfg. Co. of Can.Ltd.

DOMBRICO CREDIT UNION, Dominion Bridge Co., Lachine

D. DONNELLY CREDIT UNION, D. Donelly, Ltd.,

DRUMBUSFORM CREDIT UNION, Drummond Business Forms

EASTERN ABATTOIRS CREDIT UNION, Eastern Abattoirs

E. B. EDDY CREDIT UNION, E. B. Eddy Co.

ELCOM CREDIT UNION, Otis Elevator Co.

ELECTRICAL CREDIT UNION, Electrical Construction

Workers

FAIRWAY CREDIT UNION, Royal Typewriter

FEDERATED CREDIT UNION, Federated Metals

F.E.S.C.T. CREDIT UNION, Federation of English

FIVE STAR CREDIT UNION, Fry-Cadbury Ltd.

FLIGHT CREDIT UNION, Bristol Airplane of Canada Ltd.,

FOXBORO CREDIT UNION, Foxboro Company

FRIGATE CREDIT UNION, Canadian Vickers Co.

GENERAL FOODS CREDIT UNION, Emp. of General Foods

GENIE CREDIT UNION, Quebec Natural Gas

GLEN CREDIT UNION, CPR, Glen Yards

GREENFIELD PARK CREDIT UNION, Community

G.S.W. CREDIT UNION, General Steel Wares

GURNEY CREDIT UNION, Tappan-Gurney Ltd.

GYRO CREDIT UNION, Sperry Gyroscope Co. of Can.Ltd.

HART BATTERY CREDIT UNION, Hart Battery Co. Ltd.

HIBERNIAN CREDIT UNION, Ancient order of Hibernians

HOLY CROSS CREDIT UNION, Holy Cross Parish

HULL PACKERS CREDIT UNION, Canada Packers Ltd.

HUMP YARD CREDIT UNION, CNR, Montreal Terminals

HYDRO QUEBEC (OFFICE) CREDIT UNION, Hydro Que. EM. (fc) C.U.

IDEAL UPHOLSTERING CREDIT UNION, Ideal Upholstering Co. Ltd.

IMPERIAL OIL CREDIT UNION, Imperial Oil Co. Mtl. E. Refinery

L'INSTITUT CULTEREL CREDIT UNION, Cultural Association

ITTESCO CREDIT UNION, Int. Tel. & Telegraph Electronic Services

JACQUES CARTIER CREDIT UNION, Montreal French Printers

JENKINS BROS. CREDIT UNION, Jenkins Bros. Ltd.

KAMOURASKA CREDIT UNION, Community Group

KEBECTEL CREDIT UNION, Bell Telephone Co. for Prov. of Quebec

KIDDE EMPLOYEES CREDIT UNION, Walter Kidde & Co. of Canada Ltd.

KILLARNEY CREDIT UNION, CPR Express

LABATTS CREDIT UNION, Labatts Brewery, Ltd.,

LA PATRIE CREDIT UNION, La Patrie Employees

LASALLE WORKS, Lasalle Dosco Co.

LAURENTIEN HOTEL CREDIT UNION, Laurential Hotel Employees

LAWSON LITHO CREDIT UNION, Lawson Litho & Folding Box Co. Ltd.

LITHOGRAPHERS CREDIT UNION, Lithographers (Mtl) C.U.

LONGUEVET CREDIT UNION, Longue Pointe Garrison

MARCONI EMPLOYEES CREDIT UNION, Canadian Marconi Co.

MAZEPPA CREDIT UNION, Ukrainian Orthodox Cathedral, Ste. Sophia

MECO EMP CREDIT UNION, Meco Limited

MOLSONS CREDIT UNION, Molsons Brewery

MONBATTEN CREDIT UNION, Rapid Grip and Batten

MONSANTO CREDIT UNION, Monsanto Canada Limited

MONTEX CREDIT UNION, Spinners Ltd., Leach Textiles Ltd.

MONTREAL FIREMEN CREDIT UNION, Montreal Firemen

MONTREAL LITHUANIAN CREDIT UNION, Lithuanians of Montreal.

MONTREAL POLISH CREDIT UNION, Polish Community of Montreal.

MONTREAL RADIO & TV CREDIT UNION, Radio Canada & CKVL

MONTREAL TAXI CREDIT UNION, Montreal Taximen

MONTREAL TRANSPORT CREDIT UNION, Montreal Transport Commission

MOORE EMP CREDIT UNION, Moore Business Forms

MCDONALD CREDIT UNION, McDonald Appliance Service

MCGILL CREDIT UNION, CNR Employees

NAVARMDEP CREDIT UNION, Naval Armament Depot, Dept. of Nat'l Defence

NAVDEP CREDIT UNION, National Defence, Navy

NOTRE DAME DU SACRE COEUR CREDIT UNION, Notre Dame Parish

NORCOBRASS CREDIT UNION, Noranda Copper and Brass Ltd.

NORMETAL CREDIT UNION, Normetal Mining Company

NORTH STAR CREDIT UNION, TCA, Bowntown Employees

OSEACOM CREDIT UNION, Can. Overseas Corp. Telecommunications

OUR LADY OF FATIMA C.U., Parish

P.A.P.T. CREDIT UNION, Protestant Assoc. of Prot. Teachers

P.B.Q. CREDIT UNION, Pitney Bowers of Can. Ltd.

PHARMA CREDIT UNION, Ayerst McKenna & Harrison

PHILLIPS CREDIT UNION, Phillips Electric

PHOTOTECHNIC CREDIT UNION, Phototechnique

PLACE VIGER CREDIT UNION, CPR

POLISH COMBATANTS CREDIT UNION, Polish Combatants

PREMONT CREDIT UNION, Grier Paper

PRINTERS CREDIT UNION, English Printing Shops

PROCTOR & GAMBLE CREDIT UNION, Protector & Gamble Co. of Canada

PROVINCIAL TRANSPORT CREDIT UNION, Prov. Transport Co.

QUEBEC CENTRAL CREDIT UNION, Quebec Municipal Workers

RAND CREDIT UNION, Can. Ingersoll Rand

R.C.A. VICTOR CREDIT UNION, Head Office and Mtl. Branch

R.C.A.F. BAGOTVILLE CREDIT UNION, R.C.A.F. Bagotville, Quebec DND

R.C.A.F. MOISIE CREDIT UNION, R.C.A.F. Moisie, Quebec, DND

R.C.A.F. ST. HUBERT CREDIT UNION, R.C.A.F. St. Hubert, DND

R.C.A.F. ST. JOHNS CREDIT UNION, R.C.A.F. St. Johns

RED INDIAN CREDIT UNION, Texaco Emp. of McColl Frontenac

RED REEL CREDIT UNION, Canada Wire & Cable Co. Employees.

REGENT CREDIT UNION, Community N.D.G.

RELIANCE CREDIT UNION, Phoenix of Hartford Insurance.

REVAC CREDIT UNION, C.N.R., Accounting and Finance

REX CREDIT UNION, Railway Express Agency

REYNOLDS ALUMINUM CREDIT UNION, Reynolds Alum. Co. of Canada Ltd.

RICHELIEU CREDIT UNION, Westeel Products Ltd.

RIVERVIEW CREDIT UNION, Burroughs Wellcombe & Co. (Can) Ltd.

ROCKFIELD CREDIT UNION, Dominion Engineering

ROLLS ROYCE CREDIT UNION, Rolls Royce of Canada Ltd.

ROLPH CLARKE CREDIT UNION, Rolph Clark Stone Benallack Ltd.

ROSEMERE CREDIT UNION, Community, Town of Rosemere

ROSEMOUNT CREDIT UNION, Community

ROSS ENGINEERING CREDIT UNION, Ross Engineering of Can. Ltd.

ROUYN AREA STEELWORKERS CREDIT UNION, United Steelworkers of America.

ROYAL SAVINGS CREDIT UNION, Modern Packers Ltd., Dominion Packers

RYAN PAINT, Same Credit Union

ST. ALOYSIUS CREDIT UNION, Parish

ST. AUGUSTINE'S CREDIT UNION, Parish

ST. CLARE CREDIT UNION, Parish

ST. DOMINICS CREDIT UNION, Parish

ST. IGNATIUS LOYOLA, Parish

ST. JOHN THE DIVINE, Parish

ST. JUDE CREDIT UNION, Parish

ST. LUC YARDS, CPR Credit Union

ST. MARKS CREDIT UNION, Parish, Aylmer, Quebec

ST. MARYS HOSPITAL CREDIT UNION, St. Marys Hospital

ST. PATRICKS CREDIT UNION, Parish, Quebec City

ST. RITAS CREDIT UNION, Parish

ST. THOMAS MORE PARISH CREDIT UNION

ST. VINCENT DE PAUL PENITENTIARY EMPLOYEE'S CREDIT UNION

ST. WILLIBRORD'S PARISH CREDIT UNION

SCHERING CORP. CREDIT UNION

SCOTIA CREDIT UNION, Scotia Ticket & Printing Ltd.

SERVICE CREDIT UNION, Prot. School Board of Greater Montreal

SETTLE CREDIT UNION, Community

SHEETMETAL WORKERS CREDIT UNION

SHELL REFINERY CREDIT UNION

SHERATON MT. ROYAL HOTEL EMP. CREDIT UNION

MUNICIPAL EMP. OF SHERBROOKE CREDIT UNION
SHERWILCO CREDIT UNION, Sherwin Williams Paint
STANDARD TELEPHONES & CABLES CREDIT UNION
STEINBERGS CREDIT UNION
STELCO CREDIT UNION, Steel Co. of Canada
STRATHCONA CREDIT UNION, Y.W.C.A.
SWIFT CREDIT UNION, Swift Canadian Co. Ltd.
SYLVANIA CREDIT UNION, Sylvania Electric
SYNDICAT DES EPICIERS DE QUEBEC, Quebec Grocers Association
SYNDICAT D'EPARGNE DES EPICIERS DE L'ESTRIE
SYN. DES EPICIERS DU SAGUENAY ET LAC ST. JEAN
TAMPER CREDIT UNION, Tamper Limited
TELEMP CREDIT UNION, CPR Telegraphs
TOBACCO WORKERS CREDIT UNION, Imperial Tobacco Co.
TOBEX CREDIT UNION, McDonald Tobacco Company Ltd.
TRIANGLE CREDIT UNION, Consumers Glass
TRI CREDIT UNION, Continental Can. Co.
TRIO CREDIT UNION, Butterfields Limited
TRI-VAL CREDIT UNION, Ciba Co. Ltd., Sandoz and Mt. Royal Chemicals
TUBO CREDIT UNION, Dominion Steel & Coal
UKRAINIAN CREDIT UNION, Community
UNDERWOOD CREDIT UNION, Underwood Typewriter
VALLEY CREDIT UNION, Davidson Chemical Co.
VETERANS AFFAIRS CREDIT UNION
WALKER CREDIT UNION, Community
WESTON CREDIT UNION, Weston Bakeries, Ltd.
WILSILS CREDIT UNION, Wilsil Ltd.
WINDSOR CREDIT UNION, CPR Station

The foregoing list indicates the types of industry served. It is worthy of note that in this list, in the government classification, there are Credit Unions serving employees of the Arsenal, the Naval Supply Depot, Internal Revenue; Firemen, School Teachers, Employees of Post Offices, and of various Veteran Administration groups.

MANAGEMENT - CONTROL OF CREDIT UNION AFFAIRS

Once a group has applied for and received a charter certain clearly defined procedures must be followed:

Board of Management (Directors)

(a) The Credit Union is managed by a Board of Management made up of five members.

(b) The duties of the Board are as follows:

1. Act upon admission or dismissal of members or auxiliary members.
2. Recommend rates of dividend on shares and rebate of interest on loans.
3. Fill all vacancies on the Board, Credit Committee and Supervisory Committee.
4. Decide upon the amount of bonding necessary to protect the Credit Union against losses resulting from robbery or defalcation by officers or employees.
5. Make and control all investments except loans to members.
6. Decide, as required, the maximum amount of share capital to be held by any one member.
7. Determine from time to time the interest rate on loans to be charged borrowers.
8. Name the Manager, his assistants and all other employees of the Credit Union.
9. Authorize purchases or expenses, and delegate for this purpose members or officers.

(c) The Board may be convened by the President, the Vice-President, the Manager or three of its members and will meet at least once every month.

If a Director fails to attend regular meetings of the Board of Directors for three consecutive months, or otherwise fails to perform any of the duties incumbent upon him as a Director, or ceases to be a member in good standing, his office may be declared vacant by the Board and the vacancy filled by the remaining Directors until the next annual meeting of the members.

The Directors of Credit Unions within this Province have the right to borrow from their own Credit Unions and their loan application is submitted to the Credit Committee and judged on its own merit. The borrowing powers of these directors are no greater than any member of their Credit Union.

It is the responsibility of Directors to observe the transactions between the Treasurer and the members, to review the activities of the Credit Committee, and to attend meetings of the Directors. It is also their responsibility to ensure that a proper audit of all books and records is made at least once every three months. Copies of these audits must be submitted to

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the governmental supervising agency.

The President of the Board must report to the Annual Meeting the condition of the Credit Union and the manner in which it has been operated the past year. He should also engage in a continuous public relations' programme with both the actual and potential members of the Credit Union and the public.

(d) Three members of the Board will constitute a quorum.

Officers

(a) At the first meeting following the Annual Meeting, the Board must choose its officers: a President, a Vice-President and a Secretary; and appoint a Manager. The position of Manager, may be held by one of the officers. The election of each officer is done separately, without nomination, by secret ballot, the majority ruling.

(b) The President, Vice-President and Secretary of the Board will at the same time be President, Vice-President and Secretary of the Credit Union.

(c) The President presides at the Meetings of the Board as well as members and fulfils any other duties incident to his office.

(d) In case of the absence of the President, the Vice-President fulfils all his duties and functions.

(e) Secretary:

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(e) Secretary:

1. Keeps the minutes of the meeting of the Board and members.
2. Gives notice to the Board and members of all meetings in accordance with these by-laws.
3. Writes and transmits official correspondence.
4. Keeps the files.
5. Is, when absent, replaced by one of the Directors, as chosen by the President.

(f) Manager:

1. Shall have custody of the funds, securities and documents of the Credit Union and members.
2. Shall keep the books and registers up-to-date, and make them available at all times for inspection by the Supervisory Committee or all members of the Board of Management delegated for any particular purpose, as well as to inspectors of the Government or of the Quebec Credit Union League.
3. Must prepare financial statements within ten days following the first of each month.
4. Will advise the Board of all financial problems of the Credit Union.
5. Will keep the minutes of the Supervisory Committee.

(g) The Board will fill all vacancies amongst the Directors by the appointment of a member. The new Director will fill such vacancy

until the next Annual Meeting.

Credit Committee:

(a) The Credit Committee is made up of three members elected by the Annual General Meeting, exclusive of the Board of Management and Supervisory Committee.

(b) The President of the Board may act as a member of the Credit Committee in the absence of two members of said committee.

(c) The members of the Credit Committee may meet as often as they desire, but all loan demands must be considered by them during a meeting, in the seven days following the date of the loan demand. Two members constitute a quorum.

(d) The Credit Committee alone decides on loans to members, saving the right of appeal to the Board of Management. They can take for the benefit of the Credit Union, hypothecary and other security and give discharge therefor. No loan will be granted if one members of the Credit Committee is opposed at the meeting called for the study of said loan.

(e) Many of our Credit Union members when confronted by financial difficulties present their problems to their Credit Committee which counsels them and plans a financial programme, amalgamating their debts and providing them with a loan.

Supervisory Committee

(a) In addition to the Board of Management and the Credit Committee and excluding the members who are part of these two, the Annual General Meeting will elect from amongst the members a Supervisory Committee made up of three members.

(b) The Supervisory Committee will meet when called together by one of its members. Two constitute a quorum.

(c) The Supervisory Committee or two of its members may call a Special General Meeting of the members.

Duties of Committee

1. To supervise the Board of Management and the Credit Committee in all details of their duties.

2. To inspect the documents and books of account and require the producing of the cash.

3. To examine or cause to be examined by qualified persons the affairs of the Credit Union, at least quarterly including an audit of the books of account, and, if required, call a Special General Meeting to submit a report.

4. To satisfy itself that reasons for loans and the nature of guarantees, if any, are specified, and that said loans have been approved by at least two members of the Credit Committee, and that a promissory note

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has been signed for each loan.

Education Committee:

Some Credit Unions in Quebec create an Educational Committee, whose duty it is to spread information about the Credit Union movement among members and potential members.

Among the education material made available by the Quebec Credit Union League to Credit Unions in Quebec are the following films:

1. Duties of the Board of Directors.
2. Duties and responsibility of the Supervisory Committee.
3. Duties and responsibilities of the Credit Committee.
4. A day in the Life of the Manager.

For the past few years the Quebec Credit Union League has been conducting Education Schools for Directors, Single Day Workshops for Credit Committees and Supervisory Committees; Week-end Work Shops for Managers; and the most recent Educational Programme sponsored by the League is that of Family Financial Counselling.

Elections

The members of the Board of Management, the Credit Committee and the Supervisory Committee are elected by secret ballot at the Annual General Meeting for a term of one, two, or three years as the case may be. Any member called upon to fill a vacancy will serve only until the Annual General Meeting.

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To be nominated a member must be present, or submit to the Secretary a letter signed by himself and a witness, giving consent to be nominated to a specific position or to any position.

Voting shall be by secret ballot, the members receiving the greatest number of votes shall be elected.

ORGANIZATION CHART

(Illustrating type of Organization followed by a Credit Union in the Province of Quebec).

MEMBERS

Membership in a Credit Union is limited to persons elected by the Board of Directors from among applicants who are included in the field of membership defined in the charter of the Credit Union. Each member present at annual or special meetings has one vote. Only members may borrow from the Credit Union.

Members elect Directors and Committeemen; exercise democratic control over the Credit Union's activities; and receive reports each year from Board of Directors, Committees, and Administrative Officers.

SUPERVISORY COMMITTEE

Examines affairs of the Credit Union and audit its books.

BOARD OF DIRECTORS

Directs activities of Credit Union according to law. Elects administrative officers.

CREDIT COMMITTEE

Passes on members' applications for loans. Outlines the plans for repayment of loans.

EDUCATIONAL COMMITTEE

Develops and presents programs to extend members' knowledge of credit, thrift, and related subjects. (May be appointed by Board.)

VICE PRESIDENT

Acts in the president's absence or disability

PRESIDENT

Presides at meetings of Board and of members. Presents annual report of Board to members.

MANAGER

Credit Union, has charge of assets, keeps books, and prepares the financial and statistical reports. (This may be a salaried office)

CLERK OR SECRETARY

Keeps minutes of meetings of Board and of members. (this office may be combined with that of Manager.)

EMPLOYEES

Number of duties depend upon needs of Credit Union

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INTERIOR ORGANIZATION & OPERATIONS

1) Accepting Members:

The first transaction with a prospective member is receipt of an application form for a membership card. These cards become permanent records and are filed alphabetically. The application is subject to approval by the Board of Directors. It must be signed by a board member and the action on it must be entered in the board minutes. The application must be accompanied by the membership fee, ($1,00), and at least a 25% instalment towards a ($5) share in the Credit Union. The membership fee and initial investment are entered in a passbook which is made out in the name of the applicant for membership. All subsequent share and loan transactions are entered in the passbook until it is filled and a new one issued. The member must retain the passbook at all times other than when entries are being made in it or it is being audited.

2) Funds Received

Funds received from members in the form of membership fees, share payments, interest payments, and loan payments, are recorded on either a cash received voucher or a payroll deduction statement. These amounts are also entered in the member's passbook which he retains and on the member's individual share and loan ledger sheet or card which the Credit Union

retains. The entries in the passbook and on the individual ledger must be identical. It is not necessary to make an individual entry in the daily journal for the receipts from each member. But the daily journal must show a summary of all receipts from members for each payment made by them.

Funds received through borrowings or liquidated investments, or from other sources must be properly identified and entered separately in the daily journal.

Whenever cash receipts exceed $100, they must be deposited within forty-eight hours. Regardless of amounts, bank deposits must be made at least once a week.

3) <u>Funds Disbursed</u>

Funds disbursed to members are in the form of loans and share withdrawals. Each disbursement is recorded on a journal voucher and made by cheque. (Occasionally a Credit Union obtains permission to pay share withdrawals in cash.) These amounts are also entered in the member's passbook and on the members' share and loan ledger. The entries in the passbook and the individual ledger must be identical.

Loans to members also involve proper supporting papers or documents such as applications, notes, which must be kept intact and filed in the same order (numerical or alphabetical)

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With the exception of payments made from petty cash and share withdrawals in cash, if any, all payments are by cheque only. Each cheque is entered in the daily journ separately.

Other disbursements are made to pay accounts, salaries, insurance and bond premiums and miscellaneous items, also, a properly operated Credit Union will use part of its income for various educational activities.

4) Nature & Purpose

The daily journal provides separate columns for frequently used entries such as cash, shares, loans, interest, fees, and expenses. The daily journal also provides a miscellaneous general section for entries pertaining to other accounts such as accounts payable; furniture, fixtures, and equipment; notes payable; gain or loss; and undivided earnings. All the accounts are properly identified.

5) The General Ledger - Nature and Purpose

For each Credit Union account such as cash, shares, loans, etc., a separate page is used in the general ledger. The current month-end balance in each of these accounts is maintained in the general ledger. These general ledger account balances summarize the over-all condition of the Credit Union.

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6) Taking a Trial Balance

(a) Asset Accounts

All general ledger accounts, with the exception of expenses or income accounts fall into one or the other of two categories. The one category is assets, which the Credit Union owns such as cash (funds which have been or will be deposited in the bank); change funds (money used to make change); fixtures and equipment (those items are owned by the Credit Union); and various other assets.

(b) Liability Accounts

Everything that a Credit Union owns actually belongs to either its creditors, if any, or its members. Therefore, the second category of general ledger accounts is liabilities showing what the Credit Union owes such as accounts payable; notes payable (money borrowed from some source and therefore owed to a creditor); shares, (amounts invested in the Credit Union by its members and therefore owed to them); reserve for losses (should the Credit Union ever be liquidated this money would be distributed among the members in proportion to their shareholdings); undivided earnings (this money is retained to give the Credit Union greater financial stability but actually

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(c) The Trial Balance

Since everything that a Credit Union owns belongs to either its creditors, if any, or its members, assets must equal liabilities. Each month-end a trial balance is prepared to determine whether total assets equal total liabilities.

(d) Preparing the Schedule of Delinquent Loans

Each month-end the treasurer, or some one under his direction, prepares a schedule of delinquent loans. This schedule guides the Board of Directors in their decisions and provides the Supervisory Committee and examiner with necessary information.

(e) Maintaining the Subsidiary Expense Ledger

The Board of Directors, the Supervisory Committee, and the examiner must always be in a position to analyse expenses. Therefore, a subsidiary expense ledger is maintained. This ledger records expense categories such as salaries, stationery and supplies, educational expense, borrowers' insurance, and various other items. A review of this ledger enables

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(f) Preparing the Financial and Statistical Report

Each month-end the treasurer, or some one under his direction, prepares a financial and statistical report. Standard forms are provided for this purpose. The financial portion of this report is based on the trial balance, the schedule of delinquent loans, and the subsidiary expense ledger. This report shows the general condition of outstanding loans, whether the assets of the Credit Union are being used to the best advantage of the members, what portion of income is being used for expenses and how the income is being spent, and whether the Credit Union is operating at a profit or a loss. This Report is studied very carefully by every director and member of the Supervisory Committee.

The statistical portion of the report shows the current number of members, the number of potential members, the number of loans made since the organization. It also shows the amount of loans charged off as uncollectible, if any, and the amount of recovery on such loans.

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(g) Reconciling the Bank Balance

In addition to procedures for journal and ledger entries, bank deposits, etc., it should be noted that funds received by the Credit Union on the last day of the month are added to the cash account for that month, but usually are not received by the bank until the first of the following month. Also, all cheques issued by the Credit Union during the month are deducted from the cash account, but some of them do not clear the bank the same month. The bank also deducts service charges from the Credit Union's account but these charges may not be deducted from the Credit Union's cash account until the following month.

Because of these procedures the cash balance on the Credit Union's books and its bank balance seldom, if ever, agree. But each month-end it must be clearly demonstrated why they do not agree. This is accomplished through the bank reconciliation.

(h) Balancing the Individual Ledgers with the General Ledgers

All share and loan payments made by each member and all share withdrawals and loans granted to each member are recorded on the individual share and loan ledger

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(i) Year-end Closing Entries and Dividend Procedure

Each year-end the treasuer is required to make any entries involved in connection with amortizing and unamortized organization costs, depreciation of furniture, fixtures, and equipment. He is also required to close all income and expense accounts, determine the profit or loss, make the necessary transfers to reserves, add to undivided earnings, and calculate the share-dollars for the purpose of paying dividends.

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(j) Summary Statement About Books and Records

Although the treasurer is responsible for keeping the books and records, it is important that every director understands how they are maintained. It is also essential that every member of the Supervisory Committee clearly understands how the books and records are maintained.

FINANCIAL CONTROLS

(a) For Members:

Each member has a passbook which shows the amount of his shares (investment) in the Credit Union, and the amount of his loan balance, if any. Periodically it is necessary to determine that the balances in each member's passbook are identical with the balances in the individual ledger recording the dealings with each member.

(b) Balancing Ledgers:

Another important audit procedure is to add up the members' total share (investment) balances in the ledger and compare this total with the shares' total (members' investments in their Credit Union) shown in the general ledgers of the Credit Union; and to add up the total loan balances on the individual ledger and compare this with the total loan balance in the general ledgers. If the month-end share totals do not balance in the ledgers the reasons for this condition must be determined.

(c) Verification

A daily record is kept of a Credit Union's receipts and disbursements. During an audit these records must be verified.

(d) Bank Reconciliation:

Each month the Cash Balance on the Credit Union's books must be compared with the balance in the Credit Union's bank account. The Supervisory Committee must determine that these balances are in order.

(e) Records Supporting Loan Balances:

It is also necessary for the Supervisory Committee to determine that proper papers exist to support each loan which has been made to a member and that the conditions of each loan comply with the provisions of the law, the by-laws, the Directors, and the Credit Committee.

(f) Determine Type and Adequacy of Bond:

The Board of Directors of a Quebec Credit Union is responsible for providing a bond which conforms to the minimum standard s as prescribed by the Co-operative Syndicates Act. The Directors of a provincially chartered Credit Union have a definite legal and moral responsibility to provide a proper and adequate bond. It is the responsibility of the Supervisory Committee to make sure that the Board provides such a bond.

(g) Other Controls:

The Supervisory Committee is also responsible for determining the correctness

of all financial records; for being familiar with the provisions of the Board and the Credit Committee minutes; reviewing delinquent loans and recommending the necessary action; examining any investments made in addition to loans to members; and taking any other steps necessary to safeguard the best interests of the members.

SERVICES TO MEMBERS

To render proper service, a Credit Union must have assets and these assets must be safeguarded and used in such a manner as to attract additional assets. Therefore, the Credit Committee must have more than good intentions. It must have a sound operating procedure. Before each loan is granted, the Credit Committee must find satisfactory answers to the following three questions.

(a) Is the loan for a provident and productive purpose?

(b) Will the applicant be able to repay the loan?

(c) What assurance is there that the applicant will repay the loan?

The Committee's approach to these questions should be as sympathetic as possible. And fortunately, in practically all instances, the conditions of the loan can be adjusted to meet the circumstances of the borrower.

In a Credit Union where membership is based on employment with a firm, if the Credit Committee has any doubt about the applicant's continued employment with the firm and residence in the community, the following information is sought?

(a) Length of seniority;

(b) Length of residence;

(c) Names and address of friends and

relatives;

(d) Previous places of residence.

But the fact that a member cannot fulfil the usual requirements for granting credit by no means justifies a flat rejection. In case of doubt the Committee should ask for a co-signer or some tangible security in the form of personal property.

The personal characteristics of each borrower must be considered because, experience proves, some are extremely capable in managing their personal finances. In these instances, the Committee needs only to learn the amount and terms of repayment desired. There are others who are too conservative about the use of credit and the Committee can serve them better by suggesting changes in their programme of personal credit. Oftentimes it is more economical for the Credit Union to make a purchase for the member than not to do so. But there are others who will live far beyond their means if they are permitted to do so, a course of action which is detrimental in the long run.

For these reasons, it is often judicious and desirable to lend the member the full price of the car, furniture, or other items he needs. In other instances it may be necessary to require the member to make a reasonable down payment. Certainly when a man of

relatives;

(d) Previous places of residence.

But the fact that a member cannot fulfil the usual requirements for granting credit by no means justifies a flat rejection. In case of doubt the Committee should ask for a co-signer or some tangible security in the form of personal property.

The personal characteristics of each borrower must be considered because, experience proves, some are extremely capable in managing their personal finances. In these instances, the Committee needs only to learn the amount and terms of repayment desired. There are others who are too conservative about the use of credit and the Committee can serve them better by suggesting changes in their programme of personal credit. Oftentimes it is more economical for the Credit Union to make a purchase for the member than not to do so. But there are others who will live far beyond their means if they are permitted to do so, a course of action which is detrimental in the long run.

For these reasons, it is often judicious and desirable to lend the member the full price of the car, furniture, or other items he needs. In other instances it may be necessary to require the member to make a reasonable down payment. Certainly when a man of

reasonably good character has a large family and has a place of residence that requires him to drive to work, the Credit Committee should not hesitate to lend him the full price of a used car in good condition so he can support his family.

The terms of repayment must always be adjusted to the needs of the borrower. When granting a loan that places a member in debt to the limit of his ability to pay, the payments should always be kept high enough to discourage additional indebtedness. However, payments should never be so high as to become unduly onerous.

Also, the Credit Committee can frequently materially improve a member's position by granting him a loan to consolidate his debts and reduce the amount of his total monthly payments. But great care is exercised in regard to complete consolidation of loans. It is frequently desirable to reduce the number of payments from six or seven to two or three, whereas reducing the number of payments from six or seven to just one might encourage the member to acquire unwise additional debts.

Whenever a Credit Union does not have adequate funds to meet all the requests for loans, the Credit Committee must grant the small loans first. This policy products the least amount of profit but extends the area of

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Whenever a Credit Union does not have adequate funds to meet all the requests for loans, the Credit Committee must grant the small loans first. This policy products the least amount of profit but extends the area of

service. For example, suppose a Credit Union has $1,000 available for additional loans at one per cent per month on the unpaid balance, and one member has applied for a $1,000 loan and ten members have each applied for a $100 loan. By granting the $1,000 loan, the Credit Union's operating expense would be increased by only a single additional transaction, whereas, by granting the ten $100 loans the operating expenses would be increased by ten additional transactions. It would definitely be more profitable to grant the $1,000 loan. But by granting the $1,000 loan, a credit service would be rendered to only one additional member, whereas, by granting the ten $100 loans a credit service would be rendered to ten additional members. CREDIT UNIONS OPERATE NOT FOR PROFIT, NOT FOR CHARITY, BUT FOR SERVICE.

CREDIT SERVICE COUNSELLING:

Credit Committees approve many loans, both large and small, to persons of unquestioned ability to manage their personal finances. These loans are granted on the basis of very limited statements on loan applications and it is desirable to grant these small loans in a streamlined manner. On the other hand, the Credit Comm ttee can frequently render members a valuable additional service by providing a key to family

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money management. However, to render this service the Credit Committee must have adequate information. They must know at least the following facts:

(a) The name of each business or person owed;

(b) The unpaid balance owed on each debt;

(c) The monthly payment on each debt;

(d) The net monthly income (take-home pay) of the member. Since overtime pay can stop at any time, it cannot be considered.

With this information, the Credit Committee is in a better position to render an intelligent and sympathetic Credit Union Counselling service to the members.

<u>EXAMPLES OF CREDIT COUNSELLING SERVICES</u>

<u>Example 1</u>

The member asks for $100 to meet back payments on other debts. He proposes to repay the $100 at the rate of $8.00 a month. But the Credit Committee discovers that the member's total monthly payments are already $125. They reason: "If he cannot pay $125 a month, how will he be able to pay $125 plus $8.00 or $133 a month?" An analysis of the member's indebtedness discloses that $550 would pay off three of the member's debts. The monthly payments on

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these three debts equal $50. The analysis also discloses that $50 will pay the one house payment on which the member is delinquent. Therefore, the Credit Committee recommends that the member borrow $600 to be repaid at the rate of $25 a month. They also suggest a weekly share payment of $1.00. The following services are thus rendered to the member:

(a) The member's total indebtedness has been increased

(b) The member's total monthly payments have been reduced to $100, not increased to $133.

(c) The member now enjoys $600 additional life and disability insurance;

(d) The member's total monthly interest payments have not been increased by $100. Instead, they have been decreased by $10.50.

Financial Picture With Loan Applied For

Creditor	Unpaid Balance	Monthly Payment
Acme Loan Company	$ 183.00	$ 17.00
Friendly Finance Company	194.00	15.00
Easy Credit Corporation	173.00	18.00
Bank Loan (house)	3,467.00	50.00
Retail Credit (car)	500.00	25.00
Proposed Credit Union loan	100.00	8.00

Total monthly payments would be	$133.00
Proposed monthly share payments	Nil
Applicant's net monthly income (O.T. not included)	300.00
Amount left for living expenses	167.00
Shares to be accumulated each year	Nil

Financial Picture After Loan Granted

Bank Loan (House)	3,467.00	50.00
Retail Credit (car)	500.00	25.00
Credit Union	600.00	25.00
Total monthly payments		$100.00
Monthly share payments		4.00
Applicant's monthly income (O.T. not included)		300.00
Amount left for living expenses		196.00
Shares to be accumulated each year		52.00

Example 2:

The member has applied for $300. to buy a television set. He proposes to pay $12.50 a month. But present monthly payments already total $115. Therefore, the Credit Committee recommends a $900 loan: $300 for television set, plus $600 to consolidate some of present debts. The Credit Committee also suggests a weekly payment of $1.00 to shares.

Services Rendered

(a) Television set purchased;

(b) Monthly payments reduced;

(c) Life and disability Insurance increased;

(d) Monthly interest payments reduced.

Example 3:

Proposed loan of $400 for 80 weeks, at $5.00. Purposes: To pay off some loan companies and catch up on back payments with others. Security offered: $5.00 in shares. Applicant known to be a slightly fair credit risk. Length of service: 6 weeks. Length of residence in your community: 6 weeks.

Financial Picture After Loan Granted

Bank Loan (House)	3,467.00	50.00
Retail Credit (car)	500.00	25.00
Credit Union	300.00	25.00
Total monthly payments		$100.00
Monthly share payments		4.00
Applicant's monthly income (O.T. not included)		300.00
Amount left for living expenses		196.00
Shares to be accumulated each year		52.00

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Creditor	Back Payments	Unpaid Balance	Monthly Payment
~~ABC Loan Co. former tor~~			
ABC Loan Co. former town	$ 30.00	$ 90.00	$ 5.00
DEF Loan Co. former town	32.00	275.00	8.00
GHI Loan Co. former town	40.00	413.00	10.00
TOTAL	$102.00		

Recommended Loan For Now: $102 for 51 weeks at $2.00 ~~weekly, plus interes~~ weekly, plus interest, plus $5.00 in shares each week. Security required: Co-signer (co-signer would only signffor $102.)

Total monthly payments, etc. (includes shares)-$ 57.50
Net Monthly Income - 220.00
Left for Living Expenses - 162.00
Shares to be accumulated by end of loan period- 260.00

Recommended Loan At End of Fifty-One Weeks:

(ABC Loan Company would have been paid off. DEF Loan Company, Balance $147. GHI Loan Company, Balance $254.) $400 for 80 weeks at $5.00 per week, plus interest, plus $1.00 OR MORE in shares each week. Security required: $260 in shares, plus co-signer.

Recommended Loan at End of The 131 Weeks.

Assuming loan and share payments have been made regularly, this person's credit rating has now changed from slightly fair to good. Length of service and residence has now changed from 6 weeks to 2 years, 8 months. At this point, the Credit Committee should be prepared to lend this person the down payment on a home, or help him buy a new car, or meet most any other need for personal credit.

Exhibit 4:

Proposed loan of $1,800 for 156 weeks.

Creditor		Payments	Balance	Payment
ABC Loan Co.	Former town	$ 30.00	$ 90.00	$ 5.00
DEF Loan Co.	former town	32.00	275.00	8.00
GHI Loan Co.	former town	40.00	415.00	10.00
TOTAL		$102.00		

Recommended Loan For N-w: $102 for 51 weeks at $2.00 weekly plus shares [illegible]

[illegible]

[illegible]

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[illegible]

155 at $11.50 and 1 at $17.50. Purpose: New car costing $2,400 (applicant possesses car in reasonably good running order worth $600 as trade-in).

Security offered: $5.00 in shares plus new car. Applicant known to be a fair credit risk. Length of service: 2 years. Length of residence in the community: 2 years.

Creditor	Unpaid Balance	Monthly Payment
Mortgage Loan (house)	$6,000.00	$ 50.00
ABC Loan Company	179.00	8.00
DEF Loan Company	205.00	5.00
GHI Loan Company	117.00	9.00

Monthly payment to Credit Union, including interest, would be	69.00
Total monthly payments	$141.00
Applicant's net monthly income	280.00
Amount left for living expenses	139.00
Savings accumulated each year	Nil

Recommended Loan For Now

$501.00 for 50 weeks. 49 @ $10.00 and 1 @ $11.00, plus interest, plus $3.00 in shares each week.

Purpose: Pay off loan companies.

Total monthly payments including Credit Union payment and Shares	$113.00
Net Income	280.00
Left for living expenses	167.00
Shares to be accumulated	150.00

Security on this loan will be a 1958 Chevrolet.

Recommended Loan At The End of Fifty Weeks

$1,800.00 for 156 weeks - 155 @ $11.50 and 1 @ $17.50, plus interest, plus $1.00 in shares each week.

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Amount left for living expenses		139.00
Savings accumulated each year		Nil

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Recommended Loan At The End of Fifty Weeks

$1,800.00 for 156 weeks - 155 @ $11.50 and 1 @ $17.50, plus interest, plus $1.00 in shares each

Total monthly payments, etc.	$126.00
Net Income	280.00
Left for living expenses	154.00
Shares to be accumulated each year	52.00

Security - $50.00 in shares, plus NEW CAR.

The foregoing counselling services have accomplished the following facts:

(1) The possibility of bad loans developing has been appreciably reduced because the members were not overburdened by payments in excess of their ability to make them.

(2) The members were encouraged to save regularly.

(3) The members received additional low-cost credit service.

(4) The members received additional life and disability insurance.

(5) The character of the members was strengthened because they were able to fulfil their obligations. The member in Example 3 was also afforded an opportunity to establish a good credit rating in his community.

(6) The only consideration throughout these entire transactions was: How can the member be helped most, not, how can a profit be made because this person needs to borrow.

CREDIT UNIONS - PURPOSE - GOALS

Function:

"Credit Unions were originally set up to fill the very great need of people of modest income for low-cost personal credit. Fifty or more years ago the banks were not interested in 'personal' loans, and thousands of people were being victimized by loan sharks.

"Now there are many sources of personal or 'consumer' credit. Most of them, however, charge much higher rates of interest than Credit Unions. Hence the Credit Union movement still offers a valuable source of credit. It is better for most people, for most needs, than they can get anywhere else.

"In order for people to serve their credit needs by way of their own Credit Union, they must first accumulate the necessary funds through investment in Credit Union shares. Thus the Credit Union encourages thrift, and offers a safe and profitable place to get the habit of saving.

"Increasingly important to the Credit Union movement is member education, not only to persuade people to join their Credit Unions and to save and borrow with them, but to use the Credit Union as a source of unbiased, factual information about effective use of money in buying, investing, preparing for old age, insurance programming and other aspects of family money

management.

Importance:

"The Credit Union movement occupies an important position in the economy of the country. It provides a small but growing proportion of the total needs of the people for consumer credit; it has accumulated several billions of dollars in assets, representing a tremendous investment by members. Its opportunity for further growth and service is almost unlimited.

"Because Credit Unions are both non-profit and unselfish, i.e., are owned and controlled by the members, Credit Unions can become increasingly important in the lives of people if they are given good management and adequate promotion.

Goals:

"The goal of every Credit Union is enrollment as a member of every person who is eligible for membership in terms of a charter. Further, and more important, the goal is to see that that person gets all of the service which will be of benefit to him. In terms of thrift, that represents all the money he can save, at least up to the maximum for which life savings insurance is provided.

"In terms of credit service, the goal of every Credit Union is to carry the personal consumer debt load of all the people in its

field of service, both because it can do so at a lower rate of interest, and because it extends credit in terms of human needs and requirements, and is not motivated by the compulsion to make profits for non-member stockholders. When a member should do his borrowing from another source, as sometimes happens, the Credit Union will send him there. The purpose of the Credit Union is to serve, not to exploit."

An excerpt from "A Guide to Credit Union Operations" (P 2) revised edition, April 1961, published by CUNA Supply Cooperative, an affiliate of the Credit Union National Association (CUNA).

CREDIT UNION - OPERATIONS - POLICIES

The money which members deposit is pooled and used as a fund from which they may borrow in times of need.

In the early stages it is usually necessary for the Credit Union to limit the amount it will loan to any one member.

A Credit Union member's application for a loan is considered by persons who se station in life is similar to his own.

When a person applies for a Credit Union loan, the Credit Committee's entire attitude should be: "How can we help this person the most?" Producing the greatest possible income to the Credit Union should always be completely subordinate to the best interests of the borrower. Credit Committees are frequently called upon to do much more than approve a loan for a pre-determined sum of money. They also have many opportunities to provide guidance and to counsel members in the wise use of credit. For this reason, Credit Committee members should not only have had experience with financial problems of their own, but they should be persons who have been reasonably successful in solving these problems. The Credit Committee should do everything possible to help the members achieve a greater measure of financial security. And they have a responsibility equal to that of the directors to improve the circumstances and

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strengthen the character of the members.

Lack of Loan Demand

Surplus funds may be deposited in the Quebec Central Credit Union for use by other Credit Unions. Our Credit Unions, at the present time, have only one class of shares. Each share unit costs $5.00. The members are permitted to invest any amount they wish in their own Credit Union. The average Credit Union by-law permits the Credit Union member to obtain repayment of his shares at any time.

Members are encouraged to save as much as possible and, when they need credit, to borrow and leave the share capital intact with the Credit Union.

The Average Credit Union in the Province of Quebec declares a dividend, on share capital left with the Credit Union for a full year, of anywhere from three to five and one-half per cent.

Our Credit Unions seldom open deposit accounts because from experience it has been found that one account is sufficient. Our Credit Unions do not have a checking service such as other institutions have. A small number of larger Credit Unions have a deposit account for the convenience of the members.

Among these groups the deposit accounts are used for the purpose of paying bills but the Credit Union issues the cheque on behalf of the

member.

Interest Charges

Interest charges on loans are kept as low as possible and our Credit Unions endeavour to pay a dividend on share capital which will attract the deposits of our members. Other than the small rate of interest charged a member for the funds he borrows there are no additional charges whatsoever.

Our Credit Unions endeavour to render fast and convenient service by having the office of the Credit Union on the premises of the plant, or as close as possible. Office hours are arranged to suit the members.

Insurance Protection

Most Credit Unions provide the members with additional benefits such as insurance protection against all types of loans, including mortgages, to the extent of $10,000. at no cost to the member. This is provided by our own CUNA Mutual Insurance Society.

Life savings insurance service provides an insurable Credit Union member with a dollar of life insurance for every dollar he has in Credit Union shares. The maximum insurance is $2000. There is no direct cost to the member for this service.

[illegible]

[illegible]

[illegible] [illegible] [illegible]

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[illegible]

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Life savings insurance service provides each eligible Credit Union member with a dollar of life insurance for every dollar he has in Credit Union shares. The maximum insurance is $2000. There is no direct cost to the member for this service.

RESPONSIBILITIES AND CREDIT UNION PHILOSOPHY

This We Believe:

1. Credit Unions are associations of people, owned and democratically controlled by their members. Should they cease to be such, they cease to be Credit Unions.

2. Credit Unions are essentially thrift associations. They recognize thrift as the wise use of one's resources, which includes credit. They devote themselves to the development of regular thrift programmes designed to provide their members with a greater measure of financial security.

3. Credit Unions must provide maximum protection for their members' shares, including adequate bond coverage and systematic supervision by the Auditing Committee of their own members. They should have adequate annual examinations as required by law.

4. Credit Unions provide their members thrift and loan service that is more complete, more convenient, and more thoroughly helpful than they could otherwise obtain. Where possible they would provide insurance to cover the lives of their members to the extent of their loan balances and on all or a

[illegible]

[illegible]

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portion of, their shares, for the benefit and protection of their members' families.

5. Credit Unions should regard the character of the borrower as the prime security consideration, regardless of the amount involved, and the rate of interest should not exceed one per cent a month on the unpaid balance, and should be the same on all loans.

6. Credit Unions should recognize the essential and important place banks and other financial institutions have in our economy. They appreciate the service these institutions render and believe that friendly relations with them are mutually desirable.

7. Credit Unions should unite with each other to increase their services to their members and fulfil their obligation to bring Credit Union benefits to all prople.

8. Credit Unions should be ever alert to changing conditions and should adapt themselves to the changing needs and desires of their members, while maintaining their basic integrity and principles.

9. Credit Unions should be responsible organizations in their communities and

fulfil their civic obligations in a generous and exemplary manner.

10. Credit Unions have demonstrated that average people can operate their own financial institutions. Credit Unions are increasingly recognized as instruments of human well-being, and will continue to be so long as they maintain and cultivate the highest ideals and standards of conduct.

MORAL VALUES OF CREDIT UNIONS

To help people join together to shape their own financial destiny in an atmosphere of brotherhood and good will.

To support the life-giving principles of mutual aid and self-help.

To encourage the regular and systematic investment of small amounts in Credit Union shares.

To encourage the habit of thrift which strengthens character.

To recognize the character of the borrower as the primary security regardless of the amount involved. Any other security which is accepted to meet the requirements of the law and reasonable prudence can be described as incidental security.

To grant small loans first in order to help the most when the funds available for loans are not adequate to meet all the requests.

To recognize a person's need for the loan as the major consideration.

To enable people to get out of debt through the wise use of credit.

To consider each application for a loan in the light of how can we best help the applicant.

To extent the terms of loans in order to ease the burden of financial loss caused by sickness, layoffs, part time employment, or

other adverse experiences, at no extra cost.

To grant loans to so-called "sub-standard" risks in the firm belief that by doing so we can help them to overcome their "sub-standard" way of life.

To provide Loan Protection Insurance, and where possible, life savings insurance.

To recognize t t the most important attitude to low-income and middle-income families is the fact that through their Credit Unions they can achieve a greater measure of financial security.

To share with the members in any ab-normal development and to guarantee that each member shall have a voice and a vote determining the best way to cope with such abnormal develop-ments.

To preserve democratic principles and ensure that people - not money - shall control credit unions.

MATERIAL BENEFITS OF A CREDIT UNION

Briefly and simply they are:

1) The encouragement to save regularly and systematically;

2) The low interest on loans:

3) The ready avilability of credit based on character without undue stress on tangible secur'ty;

4) No charge for extended loan terms when needed because of unforeseen developments;

5) Insurance of loans without any additional charge;

6) Life insurance on shares at no direct cost to the member;

7) Reasonable dividends on shares.

Fulfilling All A Member's Needs for Personal Credit

It has been emphasised that a Credit Union is obligated to grant the small loans first. However, there are a number of reasons why a Credit Union should endeavour to fulfil all the needs for personal credit of the members as soon as the funds will permit. These reasons are:

(a) In practically all cases the Credit Union rate of interest is the lowest;

(b) Most Credit Union loans are insured against the death or permanent disability of the borrower at no additional cost;

(c) By handling all a member's indebtedness

[illegible]

Briefly and simply they are:

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(b) Most Credit Union loans are insured against the death or permanent disability of the borrower at no additional cost;

(c) By handling all a member's indebtedness

a Credit Union has an opportunity to keep tht eterms of repayment within his ability to pay (the phrase 'all a member's indebtedness' is intended to mean everything but the mortgage on his home);

(d) In situations where a member's need for credit involves a pledge of his car, furniture and/or other personal property, it is highly desirable that the mortgage on his property be held by his own Credit Union rather than some other lender. On many occasions persons have lost their personal property because adverse circumstances developed and they could not meet the terms of their original contract. However, their Credit Union always stands ready to make any adjustment in the terms of the repayment which become necessary.

(e) Credit Unions are operated exclusively for the benefit of the members. Therefore, whenever a depression or other adverse general circumstances occur the situation is handled in whatever manner will most effectively protect the best interest of all the members.

In addition to the foregoing considerations there are some other advantages in doing

one's credit business with a Credit Union. A borrower is generally encouraged to make a small investment in his shares each time he makes a loan payment. This practice is a definite simulus to thrift. Also, when the requirements of the law and reasonable prudence necessitate that a borrower offer some security in addition to his good character the favourite form of extra security among Credit Union members is co-signers. Because of the loan protection insurance, co-signers have no liability in event of the death or permanent disability of an insurable borrower. Therefore, co-signing for a Credit Union borrower constitutes a belief in his honesty and general good character. Co-signing is a splendid opportunity for a practical expression of human brotherhood.

Credit Union members practice another form of human brotherhood by granting loans to so-called 'sub-standard risks'. It is frequently the case that borrowers in this classification have become victims of circumstances beyond their control. As individuals, they would remain helpless, but through the cooperation and assistance of their fellow Credit Union members their position can be improved.

Here are some which cause so-called 'sub-standard risks' and the remedies which can be applied.

Cause:

A person suffers from prolonged or recurring unemployment or sickness with the result that his indebtedness increases. As his debts increase the rate of interest he must pay becomes higher because of the 'risks' involved. Finally his circumstances are such that most of the money he can supply toward his indebtedness is used for interest charges and the principal goes on indefinitely. It is almost inevitable that such a person will become completely demoralized and will become inclined not to try to help himself.

Remedy:

A Credit Union consolidation loan on a repayment plan he can afford will materially improve this person's circumstances. Since the Credit Union rate of interest is low, most of the money applied on his indebtedness will be used to reduce the principal. This improves the person's morale. Since the amount of money involved will usually be substantial, some form of security in addition to the borrower's good character will be required. But this matter is usually arranged to the satisfaction of both parties.

Cause:

Merchants seeking a profit have been known to encourage people to buy many things which they could not afford. It is quite easy

[illegible]

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Cause:

Merchants seeking a profit have been known to encourage people to buy many things which they could not afford. It is quite easy

for a thoughless person to accumulate a series of monthly payments which become much higher than he can meet. Such a person is faced with the loss of his equity through the repossession of the merchandise, a loss he can by no means afford.

Remedy:

If it has an opportunity a Credit Committee will discourage purchases by such a member before they are made. Also, a Credit Committee will do everything possible to 'rescue' such a person and then try to prevent following a similar pattern.

Cause:

A person is deficient in ability to spend his money wisely and is quite unaware of this deficiency.

Remedy:

A Credit Committee makes an active effort to provide general information to all members about the wise use of money. Also, they make helpful suggestions to persons who apply for loans, gradually win their respect and confidence, and encourage them to seek advice in the future.

There have been situations where loan applicants were hopelessly in debt to various persons and businesses and it was seriously questionable whether they could ever repay these debts in full. In such cases the Credit Committee contacted the various creditors and

arranged for them to settle for considerably less than on hundred cents on the dollar. The Credit Union advanced the amounts needed to make the settlement, the creditors received the best deal available and obtained their money immediately, and the member was given a 'fresh start' in life.

Best Possible Source of Security:

A Credit Union is a person's best possible source of security, both as an individual and as a member of society, for reasons stated and illustrated.

In the event of adverse circumstances such as sickness - or unemployment, he need have no fear that he will be forced to surrender his personal property because of his indebtedness.

There is, however, another illustration of what Credit Unions offer to society. They provide effective safeguards against many of the results of a depression. Diminished purchasing power and lack of a market for goods and services causes lay-offs.

These factors accelerate the downward spiral. But the Credit Unions, through availability of credit, can and do much to help maintain a high level of purchasing power, though it be on a lower level than under normal conditions.

And even though a depression cannot be forestalled, its affects can be, and are modified by Credit Unions. In many families

payments on personal debts absorb as much as thirty per cent of current income so readjustment of these debts, in line with reduced current income appreciably 'cushions the shock' of a depression. Such readjustment compels people to lower their standard of living, but it does not subject them to a condition of insecurity.

VALUE TO EMPLOYERS

Employers generally support the principles of Credit Unions because:

(a) Credit Unions relieve financial harassment due to indebtedness from which many employees suffer. Through such service Credit Union members become safer and more productive employees.

(b) Credit Unions increase the measure of security employees enjoy. This circumstance reduces personnel turn-over.

(c) Credit Unions make it easier for employees to acquire their own personal property. This fact causes employees to feel a greater respect for property in general and that of their employer's property.

(d) Credit Unions enlighten employees on the problems of operating their own business. This generates among them a better understanding and appreciation of the business problems of their employers.

(e) Credit Unions raise employee morale and increase the loyalty of employees toward their employer.

LOANS

Credit Unions grant loans to members in two categories; secured and unsecured. A secured loan is one that is protected by some sort of security in addition to the Credit Committee's knowledge of, and faith in, the good character of the borrower. An unsecured loan is based entirely on the good character of the borrower.

The Co-Operative Syndicate Act does not stipulate the amounts which may be loaned under the categories secured and unsecured. The determination of the amounts is left to the discretion of the Credit Union Board of Directors.

As security for loans Credit Unions can ask for

(1) A co-signer;

(2) Government bonds, pension plans or insurance policies.

Most of our industrial organizations use the pension plan or insurance policy as security for loans.

Lending practices are the same throughout the Province. All Credit Unions use similar types of securities, limitation of loan without security, the general practice being to permit a loan without security up to $5.00.

Loan Interest

The Quebec Co-operative Syndicates Act

LOANS

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[illegible]

The Quebec Co-operative Syndicates Act

states that no Credit Union may loan funds at a rate higher than 1% on the unpaid balance. The general practice is that our Credit Unions abide by this ruling. There are a few exceptions, of course, where a Credit Union will loan funds at three-quarters of one per cent or one-half of one per cent. Within the Province institutions other than Credit Unions charge six per cent discount on loans and six per cent straight interest on loans; other charge one and one-half per cent per month.

Usually the rate of interest is governed by the by-laws of the Credit Union but there are a few exceptions where Credit Unions which deal in mortgage loans set the rate at one-half of one per cent, plus one per cent for insurance charges.

Experienced Credit Union officials should never hesitate to grant loans up to the legal maximum and accept the various types of collateral demanded by law. This includes shares, co-signers, assignments on life insurance policies, bonds and other forms of personal property.

Loans and Mortgages

The average size of loan outstanding in Quebec Credit Unions is approximately $400. Loans are based on the requirements of those seeking such accommodation. The terms of loan may be from twelve to thirty-six months.

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the size and availability of cash in the specific Credit Union. In one Credit Union a borrower may not be able to obtain funds in excess of $1,000, whereas in another Credit Union he may be able to borrow one, two or three thousand dollars. It may also be based on the character of the individual seeking funds.

Causes of Delinquent Loans

There are several causes of delinquent loans and, when a borrower becomes delinquent, he is usually the party to the situation who is the least at fault. Loans become, and continue to be, delinquent because the proper steps are not taken to eradicate the causes of delinquency.

Causes:

(a) Persons are sometimes permitted to acquire indebtedness in excess of their ability to pay;

(b) After the indebtedness occurs unforeseen changes in a person's circumstances make it impossible to fulfil the terms of his obligations;

(c) People are fundamentally honest but they are also 'all too human'. Some are inclined to meet their obligations as agreed and still pursue their personal pleasures to the neglect of their obligations;

(d) A few are dishonest and deliberately default on their debts.

The Board of Directors is responsible for sending reminders to borrowers who disregard their obligations and for dealing with any borrowers who deliberately default. If the Board performs its duties in this respect properly, delinquencies from these causes are held to a minimum.

Removing the other two causes of delinquency is the responsibility of the Credit Committee.

Credit counselling by a competent Credit Committee will prevent a person from contracting an indebtedness beyond his ability to repay or on terms he cannot meet.

The remaining cause of delinquency is an unforeseen change in a person's circumstances which make it impossible for him to fulfil the terms of his obligation.

The Credit Committee can render an extremely important additional service to a member by reducing the amount of his loan payment whenever a change in his circumstances makes it impossible for him to make the payment to which he originally agreed. This is accomplished by drawing up an extension agreement. As noted in the section of the brief outlining the responsibilities of Directors; it is important to the development of the character of the borrower that he be required to fulfil the obligations as agreed. However, no person can be required to

meet terms that are beyond his ability to fulfil. The importance of the wise use of extension agreements will be further emphasized a little later in our discussion.

Control Over Delinquent Loans

The Directors are responsible for safeguarding the investments of the members. Therefore, loans cannot be permitted to become unduly delinquent.

All Credit Union members must be required to repay their loans as agreed or be excused for good cause. In many Credit Unions, Directors control delinquent loans by appointing a Delinquent Loan Committee. This Committee studies the manner in which all loans are repaid and takes appropriate action without injury to the Credit Union or the member (s) involved.

Uncollectible Loans

In considering all types of business, losses occur, and, although Credit Unions enjoy an extremely favourable loss ratio, they are by no means completely exempt from all such losses. Therefore, whenever it is determined that a loan balance is absolutely uncollectible, the Directors authorize the Treasurer to charge it off the reserve fund. Since losses are so low, this reserve fund accumulates rapidly. Therefore the law permits additions to the reserve fund.

Security of Member Investments - Loans

In addition to the security provisions

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In addition to the security provisions

of the Co-operative Syndicates Act, the rules governing granting of credit, bonding of those responsible for handling Credit Union funds, plus the insurance protection services, our Credit Union la#s provide that, at the end of each year 10% of net earnings must be transferred to a fund which becomes a reserve for losses. Losses are so s ell that, for every hunred dollars loaned out, less than 15 cents (.15%) has been lost in bad debts.

Notwithstanding all these precautions experience was proved that losses can occur from:

(a) occasional deliberate dishonesty;
(b) lack of faithful performance of duties;
(c) forgery or alteration of cheques and other legal papers;
(d) burglary and robbery;
(e) a circumstance called misplacement and mysterious unexplainable disappearance.

Because of these factors various bonds have been developed to protect Credit Unions against such losses. It is the legal responsibility of a Board of Directors to determine and obtain the type and amount of bond coverage their Credit Union needs. In Quebec, Credit Unions can obtain a bond which protects Credit Unions against all five of the types of possible losses enumerated above, up to $1,000,000.00.

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This bond is available at a reasonable premium cost.

CUNA Bonding Service

The primary objective of this department is to provide every Credit Union with a proper and adequate bond. During the past fifteen years it has been conducting an intensive and exhaustive study of the bonding needs of Credit Unions. It has made available to Credit Unions a bond which:

(a) Covers every person who has been authorized to handle the funds of the Credit Union;

(b) Covers officers and committee members when performing their duties as such;

(c) Covers Credit Unions from practically every conceivable cause of bondable loss;

(d) Covers all assets admitted or non-admitted up to $1,000,000. for each Credit Union.

FINANCIAL POSITION - INVESTMENTS

The amount of shares outstanding as of December 31, 1960, was 28,949,000. The amount of deposits as of December 31, 1960, was $5,752,222. These deposits are on the books of only a very small number of our Credit Unions, because we do not believe deposit accounts are justified where the Credit Unions do not have a checking account service.

Outstanding loans to members only, as of December 31, 1960, amounted to $30,561,809.

The amount of mortgage loans outstanding as of December 31, 1960 was $2,700,401. These are limited to a minority group because it is not a general practice of our Credit Unions to handle mortgage loans.

Reserves as of December 31, 1960 amounted to $1,102,842.

Assets as of December 31, 1960 were $38,673,955.

Investments as of December 31, 1960 amounted to $2,382,601. This figure is confined to a minority group due to the fact that our Credit Unions, because of a high demand for loans from members, seldom have excess funds to invest. Up to 90% of the funds of the Credit Unions are loaned to the members.

Investments - Policies

Our larger Credit Unions, which do have excess funds must investmthem in stocks

or debentures of the Dominion Canada or of the Province of Quebec or in securities guaranteed by the Dominion or the Province; or in the securities of any municipality or school corporation in this Province; or in duly authorized loans for the erection or repair of churches, presbyteries or cemeteries in this Province; or in the loans of fabriques or ecclesiastical or religious corporations in the Province; or on a first privilege or first hypothec to an amount not exceeding three-fifths of the municipal valuation of the real estate affected. (See Section 49, pages 8 and 9 of the Quebec Co-operative Syndicates Act.)

To forestal any possibility of dishonourable and questionable practices by Credit Union officers the Co-operative Syndicates Act stipulates that Credit Unions must request permission from the Quebec Credit Union League to invest these funds, thus preventing malpractice.

(See Section 40, Paragraphs 1, 2, 3, of the Co-operative Syndicates Act, copy attached.)

Cash and Liquid Reserves

Section 16, item 2, of the Quebec Co-operative Syndicates Act rules that "The total amount of the sum borrowed by a syndicate shall not, at any time, exceed twice the amount of its special reserve fund mentioned in section 39, and of its paid-up and unimpaired capital. For

the purposes of this sub-section, savings entrusted to a Credit Union by its members, and loans entirely secured by the pledging of securities or moveable effects, shall not be considered as borrowed sums."

Many of our Credit Unions keep five to ten per cent of assets in cash. However, there are periods when their assets may go below the prescribed reserve. At such time they have agreed borrowing powers with the bank, with which they do business, or with Quebec Central Credit Union. If the Credit Union is a member of Quebec Central Credit Union they have borrowing powers according to their credit standing or their past experience with Quebec Central Credit Union.

THE COSTS OF CREDIT

There are two types of interest but the average person makes little or no effort to distinguish between them. There is simple interest charged by our Credit Unions and there is discount interest. Simple interest is figured at so much per month on the unpaid balance and is collected when each payment is made. Discount interest is deducted in advance from the amount of the loan and the borrower receives the balance.

To illustrate: Mr. Jones borrows $100.00 to be repaid in twelve regular and equal monthly instalments plus an interest cost of one per cent per month on the unpaid balance. He will pay twelve per cent simple interest. But he will enjoy the use of the $100.00. But if Mr. Brown borrows $100.00 to be repaid in twelve regular and equal monthly instalments including interest and that six dollars and fifty cents in interest is deducted in advance. He will pay six and one-half per cent discount interest. And he will only have the use of $93.50.

In both cases the interest cost will be $6.50 and Mr. Jones who will pay twelve per cent simple interest will enjoy the use of the larger amount of money.

The foregoing facts mean four things to us in the Credit Union movement:

(a) It is important to distinguish between simple interest and discount interest;

(b) It is highly desirable to determine in advance the total money cost of credit which is obtained for so much interest per month on the unpaid balance;

(c) It would be interesting to convert the money cost of credit into a rate of simple interest because the money cost of credit is the really important consideration.

1) Determining the Money Cost of Credit:

In cases where a discount interest is charged the money cost of credit is equal to the amount of interest deducted. When simple interest (so much per month on the unpaid balance) is charged, the total money cost of the credit can be determined by using the following formula: Total interest equals the interest for the first month times the number of payments plus one dividend by two. Example: $300 borrowed at one per cent per month on the unpaid balance, to be repaid in twelve regular and equal monthly instalments plus interest. Total interest equals $\$3.00 \times \frac{(12 \text{ plus } 1)}{2} = \$19.50$. (If payments are made weekly or semi-monthly, this formula will product an answer which will be reasonably close to the actual amount.)

2) Converting Money Cost Into Interest Rate:

The formula for converting the money

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2) Converting Money Cost Into Interest Rate:

The formula for converting the money

cost of credit into a rate of simple interest is as follows:

Interest rate equals 2 x 12 money cost

Amount received x (number of payments plus 1).

In the case of Mr. Brown, he contracted to repay $100. in twelve regular and equal monthly instalments at a money cost of $6.50 and he received $93.50. Tt is interesting to determine the actual rate of simple interest which Mr. Brown paid

$$\text{Interest rate equals } \frac{2 \times 12 \times \$6.50 = \$156.00}{\$93.50 \times (12 \text{ plus } 1) = \$1215.50}$$

By converting these dollar figures to a percentage, $156.00 plus $1,215.50 - .28 or 12.8% in terms of simple interest, Mr. Brown paid 12.8%.

Also, the Credit Union loan would probably be covered by life and permanent disability insurance at no cost to the member.

In determining the true money cost of credit, any service charges or investigation fees must also be added to the interest, or carrying charge.

OPERATING EXPENSE ITEMS OF CREDIT UNIONS

As shown in the consolidated balance sheet for 1960, included with this brief our Credit Unions derive their income from interest on loans to members, membership entrance fees and annual income from dividends on investments.

The expenses incurred by Credit Unions are:

- Administration expenses, such as, the
- management of the office;
- light, heat and power;
- miscellaneous charges;
- gratuities;
- loan protection insurance;
- loan and life savings' insurance protection;
- interest refunds (which are becoming quite popular in this Province)
- League dues to our Quebec Credit Union League to pay operating costs of the League;
- bond insurance, which is a protection for our Credit Unions;
- educational expenses, which pay for the educational services the Credit Union provides for its members;
- general meeting expenses which would cover all meetings held during the year.

QUEBEC CREDIT UNION LEAGUE

CONSOLIDATED BALANCE SHEET

As of December 31st, 1960

A S S E T S			
CASH			
(12)	Cash	$ 214,521.00	
(13)	Banks	1,900,466.00	
(14)	Others	25,846.00	
(16)	TOTAL		$ 2,140,833.00
INVESTMENTS			
(17)	Q.C.C.U.	352,396.00	
(17a)	Q.C.U.L.	16,241.00	
(17b)	Government Bonds	1,738,144.00	
(17c)	Others	275,820.00	
(29)	TOTAL		2,382,601.00
LOANS			
(30)	Personal	30,561,809.00	
(30a)	Mortgage	2,700,401.00	
(30b)	Others	277,265.00	
(40)	TOTAL		33,539,475.00
FIXED ASSETS			
(47)	Furniture & Fixtures	164,611.00	
(47a)	Property	171,725.00	
(47b)	Others	274,710.00	611,046.00
(49)	GRAND TOTAL OF ASSETS		$38,673,955.00

The numbers in brackets correspond to paragraph numbers in:

"Questions for Briefs to be Submitted by Credit Union Leagues (Associations)."

L I A B I L I T I E S

SHARES

(50)	Shares	$28,949,000.00	
(50a)	Deposits	5,752.222.00	
(54)	TOTAL		$34,701,222.00

LOANS PAYABLE

(60)	Loans from Quebec Central C.U.	210,901.00	
(61)	Loans from Banks	175,410.00	
(62)	Loans from Others	830,658.00	
(63)	TOTAL		1,216,969.00

SURPLUS

(64)	Undivided Earnings		1,652,922.00

RESERVES

(65)	Reserves		1,102,842.00
(67)	GRAND TOTAL OF LIABILITIES		$ 38,673,955.00

The numbers in brackets correspond to paragraph numbers in:

"Questions for Briefs to be Submitted by Credit Union Leagues (Associations)."

QUEBEC CREDIT UNION LEAGUE

CONSOLIDATED STATEMENT OF INCOME AND EXPENSES

For the period ending December 31, 1960

I N COO M E

EARNINGS

(68)	Loan Interest	$[illegible]608,240.00	
(69)	Interest on Investments	116,355.00	
(72)	Other Earnings	73,851.00	
(73)	TOTAL EARNINGS		$2,798,446.00

E X P E N S E S

(74)	Salaries and Wages	305,222.00	
(75)	Administration	839,771.00	
(			
(76)	GRAND TOTAL OF EXPENSES		1,144,993.00
(80)	RETAINED EARNINGS		$1,653,453,00

The numbers in brackets correspond to paragraph numbers in:

"Questions for Briefs to be Submitted by Credit Union Leagues (Associations)."

QUEBEC CREDIT UNION LEAGUE

SIZE, DISTRIBUTION AND MEMBERSHIP OF CREDIT UNIONS

Size of Assets	(1) No. of C.Us.	(2) Membership	(3) Total Assets	(4) % of assets in investments	(5) % of assets in loans and mortgages
(6) Under $500,000	183	-	,233,781	4.82%	85.4%
(7) $500,000 to $1,000,000	11	-	8,276,339	6.2%	86.6%
(8) $1,000,000 and over	6	-	15,163,835	7.5%	88%
TOTAL	200	82,000	$38,673.955		

QUEBEC CENTRAL CREDIT UNION

BALANCE SHEETS from 1954 to 1961

A S S E T S

DEC.	PPD. EXP.	CASH	LOANS	FUR & FIX	INVESTMENTS	TOTAL
1961	$ 1,975.20	$ 42,546.19	$ 546,950.56	$ 1,674.01	$ 3,556.81	$ 596,702.77
1960	1,052.25	44,401.96	387,633.55	1.397.28	3,421.68	437,906.72
1959	359.17	24,696.30	286,498.70	236.00	3,295.88	315,086.05
1958	318.33	13,938.21	190,848.54	253.25	3,096.52	208,154.38
1957	829.13	4,839.96	134,188.28	293.00	3,001.04	143,151.41
1956	359.32	1,109.51	114,446.37	332.75	3,001.04	119,248.99
1955	100.54	3,577.22	70,831.55	372.50	3,001.04	77,882.85
1954	74.85	329.47	32,651.00	65.75	1.02	33,122.09

L I A B I L I T I E S

DEC.	DEP.	ACCT. PAY.	RESERVES	SHARES	SURPLUS	TOTAL	LOANS PAY.
1961	$ 83,000.00	$ 1,591.86	$ 8,791.40	$ 480,087.63	$ 23,231.88	$ 596,702.77	-
1960	46,050.00	1,555.23	6,451.04	320,496.78	13,353.67	437,906.72	$ 50,000.00
1959	-	597.47	5,200.10	282,995.91	11,292.57	315,086.05	15,000.00
1958	-	504.90	3,528.88	186,223.43	8,197.17	208,454.38	10,000.00
1957	-	1,911.61	2,660.32	133,483.38	5,096.10	143.151.41	-
1956	-	121.14	873.37	113,699.74	4,554.74	119,248.99	-
1955	-	101.35	388.20	75,782.40	1,610.90	77,882.85	-
1954	-	-	213.52	31,819.89	1,016.68	33,122.09	-

QUEBEC CREDIT UNION LEAGUE:

Purposes and Objectives:

This can best be described as a combination trade association and public service organization. The league staff consists of a Managing Director, field representative and office employees.

It was established in 1942.

The primary purpose of a league is to encourage and enable various eligible groups throughout the province to form Credit Unions.

League representatives organize new Credit Unions by contacting the leaders of eligible groups and explaining the Credit Union services and benefits which are available to the members of the group. The league representatives help interested groups to obtain a provincial Credit Union charter.

They also participate in the organizational meeting of the new Credit Union and teach the board of directors, Credit Committee, Supervisory Committee and Treasurer how to operate the Credit Union properly.

The newly-formed Credit Union incurs no cost or obligation for these league services. However, almost without exception, the Credit Union becomes a member of the league.

The League also informs the general public about the nature and functions of Credit

Unions. This objective is accomplished through press releases, the showing of special films, providing speakers for special gatherings and inviting religious, labour and community, business and government representatives to Credit Union functions.

The Quebec Credit Union League has a definite responsibility to protect and further the legislative interests of their Credit Unions at the provincial level.

The Credit Union National Association and National Association of Canada Credit Unions handle legislative matters on a national and provincial scale.

Staff and Duties

Managing Director

The Managing Director is responsible for developing policies and objectives designed to fulfil the basic purposes of the League and recommend these policies and objectives to the League Board for their consideration. He must also carry out the policies and objectives adopted by the League Board.

The Managing Director employs a field staff and directs their activities. He also engages the office staff and supervises their activities. In general the Director provides Credit Unions with leadership, guidance, inspiration and technical advise.

Field Representatives

The field representative of the League makes periodic calls on the Credit Unions in his territory. He helps to solve any operating problems the Treasurer, Board, or Committees of the Credit Union may have. He also provides the Treasurer, Board and Committees with Leadership, guidance and inspiration. The Field Representatives of the League visit all Credit Unions regularly to inspect the operations generally and, if necessary, attend the meetings of the Board of Management and the Credit and Supervisory Committees to verify that they are performing their duties in accordance with the by-laws of the Quebec Cooperative Syndicates Act.

Services to Credit Unions

Credit Unions need accounting and record keeping forms which have been especially designed for their use. To facilitate auditing activities it is necessary to standardize these supplies. Credit Unions also need various educational and promotional materials to use in programmes of membership development. Quebec Credit Union League operates a supply department, distributing printed materials produced by the Cuna Supply Co-operative. The Quebec Credit Union League has an inspection department, the members of which periodically visit the Credit Unions throughout the Province,

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examining the books and making an annual audit and they supply the necessary balance sheets for the Provincial and Federal Government. This is another form of protection.

Security

The League has a Loss Prevention Programme where a representative of the bonding company periodically surveys all Credit Unions within the Province to verify that they are taking all precautions to safeguard the funds of the Credit Unions and use up-to-date accounting methods. (See material attached from the Loss Prevention Programme Committee.)

Many of our larger Credit Unions engage professional auditors as an added safeguard.

Stabilization Fund

As a further protection for Credit Unions the Quebec Credit Union League is now studying setting up a Stabilization Fund. The draft outline of this plan follows:

1. The name of the plan shall be "The Credit Union Stabilization Fund of the Quebec Credit Union League" hereinafter referred to as the "FUND".
2. The purpose of the FUND shall be the financial rehabilitation and stabilization of Credit Unions affiliated with the Quebec Credit Union League, including assistance permitting efficient and orderly liquidation of the assets of Credit Unions which

decide to dissolve.

3. The purpose of the FUND shall in no way replace good Credit Union management nor shall it eliminate the need for constant adequate bonding coverage of all Credit Union employees and/or officials.

4. The FUND shall be sponsored by the Quebec Credit Union League and shall be one of its services. It shall be administered in accordance with rules and regulations approved by the participants.

5. Participation in the FUND shall be compulsory and the participants shall have vested interest in the assets and liabilities of the FUND.

<u>Rules and Regulations</u>

1.1. <u>Membership</u>

(a) Membership in the FUND shall be compulsory for all Credit Unions affiliated with the Quebec Credit Union League.

(b) Termination of membership in the Quebec Credit League shall as of the effective date thereof constitute termination of membership in the FUND. A terminated member's capital contribution shall be returned to it after being adjusted on a pro-rata basis for such expenses and grants as may have been charged against the capital

3. The purpose of the FUND shall in no way replace good Credit Union management nor shall it eliminate the need for constant adequate bonding coverage of all Credit Union employees and/or officials.

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contribution accounts of all members.

No income of the FUND shall be payable to a terminating member. Capital contributions of a terminating member shall be returned at such times and in such amounts as shall be determined by the Board of Trustees, provided, however, that payment in full shall be made not more than three years after the date of termination.

(c) Failure to contribute to the FUND as required under these by-laws shall terminate membership in the Quebec Credit Union League.

Administration

1. The FUND shall be administered by a Board of five Trustees, two of which shall be elected annually at the annual meeting of the League by and from delegates representing Credit Unions affiliated to the League. The three remaining members of the Board of Trustees shall be appointed annually by the Board of Directors of the Quebec Credit Union League. The Treasurer of the League shall be the Treasurer of the FUND.

2. Vacancies on the Board of Trustees shall be filled by the Board of Directors of the League until the next

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2. Vacancies on the Board of Trustees shall be filled by the Board of Directors of the League until the next

election of the Board of Trustees.

3. The President and Managing Director of the League shall be officio members of the Board of Trustees without vote.

4. At the first meeting of the Board of Trustees following the annual meeting of the Quebec Credit Union League, the said Board of Trustees shall elect from among their number a Chairman, a Vice-Chairman and a Secretary.

Duties of Officers

1. The Chairman shall preside at all meetings of the Board of Trustees; shall countersign all cheques, drafts, notes, and other legal documents of the FUND; and shall perform such other duties as customary to his office or as they may be directed are to perform by the Board of Trustees.

2. The Vice Chairman shall have and exercise all the powers, authority and duties of the chairman during his absence or his inability to act.

3. The Secretary shall keep the minutes of all regular and special meetings of the Board of Trustees and report regularly to the Board of Directors of the League and at the annual meeting

election of the Board of Trustees.

3. The President and Financial Secretary of the League shall be ex officio members of the Board of Trustees without vote.

4. At the first meeting of the Board of Trustees following the annual meeting of the Quebec Credit Union League, the said Board of Trustees shall elect from among their number a Chairman, a Vice Chairman and a Secretary.

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3. The Secretary shall keep the minutes of all regular and special meetings of the Board of Trustees and report regularly to the Board of Directors of the League and at the annual meeting

of the Quebec Credit Union League.

4. The Treasurer shall have general charge and custody and be responsible for all funds and securities of the FUND and deposit all money received in the name of the FUND in such banks, trust companies, or other depositories as the Board of Trustees shall determine. He shall sign all written orders for withdrawal of funds from any depository, keep correct and complete books and records of accounts and render quarterly reports to the Board of Trustees showing the financial position of the FUND.

Duties of the Board of Trustees

1. The Board of Trustees shall meet as often as necessary to carry out the general administration of the FUND, but not less than four times per year. A majority of the voting members of the Board of Trustees shall constitute a quorum.

2. The Board of Trustees shall have the responsibility for the general administration and management of the FUND and more specifically:

(a) Keep appropriate records of their meetings;

(b) Designate depositories for the monies

and other assets of the FUND;

(c) Invest and reinvest the monies as provided for in the Quebec Co-operative Syndicates Act and collect dividends, interest and earnings therefrom and sell and convert investment;

(d) Make such expenditures as may be necessary to operate the FUND efficiently;

(e) Engage personnel for the proper operations and administration of the FUND and fix remuneration for such personnel;

(f) Provide 100% bond coverage for all persons handling funds;

(g) Stabilize member Credit Unions showing the need thereof within the resources of the FUND;

(h) Enter into agreements with Credit Unions desiring assistance or wishing to liquidate;

(i) Sell, assign, or otherwise dispose of assets acquired from liquidation to the end of complete orderly and business-like liquidation of such assets; and to the end that the fair value of such assets may be realized from such liquidation;

(j) Establish such rules and regulations

A1287

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(i) Sell, assign, or otherwise dispose of assets acquired from liquidation to the end of complete, orderly and business-like liquidation of such assets; and to the end that the fair value of such assets may be realized from such liquidation;

(j) Establish such rules and regulations

which, from time to time, may be necessary for the proper administration of the FUND;

(k) Report annually in writing to the annual meeting of the Quebec Credit Union League and to each participating member of the FUND;

3. Members of the Board of Trustees shall serve without remuneration, but shall be entitled to be reimbursed for such out-of-pocket expenses as shall be approved by themselves according to Credit Union League policies.

Funding

1. A fund of money (the FUND) shall be established and maintained by pooling investments of all Credit Unions affiliated with the Quebec Credit Union League. The amount of the annual investment of each Credit Union shall be a sum equivalent to one-tenth of one per cent of its total shares and deposits. Such investment shall be paid into the FUND on or before March 31st annually.

2. The total amount of the FUND so created shall be pooled to a sum equal to one per cent (1%) of each Credit Union's total shares and deposits.

3. The monies comprising the FUND, when not

which, from time to time, may be necessary for the proper administration of the FUND;

(k) Report annually in writing to the annual meeting of the Quebec Credit Union League and to each [illegible] participating member of the FUND;

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2. The total amount of the FUND so created shall be pooled to a sum equal to one per cent (1%) of each Credit Union's total shares and deposits.

3. The monies comprising the FUND, when not

in use for the purpose of the FUND, shall be invested in such ways and places as are approved by the Quebec Cooperative Syndicates Act.

4. Earnings from investments of the FUND shall accrue to the FUND and shall be used to pay the expenses of operations or as determi[illegible]d by the Board of Trustees.

5. Separate accounting shall be made for the investment of each participating Credit Union. Statements verifying these accounts shall be given annually to each Credit Union on or before March 31st in each year.

6. There shall be prepared annually a valuation of the FUND by the Inspection Department of the League. The value of the investment of each Credit Union shall be increased or decreased accordingly.

7. The fiscal year of the FUND shall be that of the Quebec Credit Union League.

Regulations

1. Each application by a Credit Union for assistance shall be made in writing to the Board of Trustees and shall, insofar as applicable, be in the following terms:

(a) A letter from the Credit Union

addressed to the Board of Trustees formally requesting aid;

(b) A financial statement and statistical report as of the date the request is made;

(c) A copy of the inspection report for the previous two inspections;

(d) An analysis of outstanding loans;

(e) A list of shareholders showing amounts of shares held by each, together with deposit accounts if applicable;

(f) A list of the officials of the Credit Union and of the person in charge of the record, together with their address and telephone numbers;

(g) A statement duly signed by the president and secretary as to the reasons for assistance; what has been done to counteract the situation; history of the Credit Union and the present location of the records.

2. Each application for assistance shall be considered on its own merits and remedies shall be designed to give adequate assistance.

3. The Board of Trustees shall determine the amount and form of assistance given which may be one or more of the

following:

(a) Supply and pay for a qualified manager;

(b) Grant a low interest loan;

(c) Make a grant in aid, as the Board of Trustees may determine;

(d) Other methods as the Board of Trustees may employ.

4. Wherever possible a Credit Union which has received assistance shall be expected to repay the FUND for the assistance received. Losses in dissolution shall be kept to a minimum and shall be charged to the FUND.

5. Decisions of the Board of Trustees may be appealed to the Board of Directors of the League who may make recommendation for other disposal.

Dissolution of the Fund

1. This Stabilization Fund may be dissolved upon the application in writing, supported by two-thirds of the participating Credit Unions and subject to a special resolution of the Quebec Credit Union League ratifying the intent of dissolution.

2. Upon dissolution, the net assets of the FUND shall be liquidated and distributed to the participating Credit Unions in relation to their investments in the FUND.

Amendments

These by-laws may be amended at any annual or special meeting of the Quebec Credit Union League by a two-third vote of delegates present, provided, however, that the Board of Trustees shall have the rights tomake changes in any rules or regulations governir this FUND which do not reverse or alter the present policies established by these by-laws. Any change made by the Board of Trustees shall not become operative until it has received approval from the Board of Directors of the Credit Union League of Quebec.

QUEBEC CENTRAL CREDIT UNION

Quebec Central Credit Union (separate from the Quebec Credit Union League in purpose and functions) was organized in 1951 to service members of Supervisory and Credit Committees in the individual Credit Unions who are not permitted to borrow from their own Credit Union because, we believe, some means must be available for these officers to borrow funds.

In a small way, Quebec Central Credit Union also assists Credit Unions in times of need to meet the demands for withdrawals or loan demands. From the annual reports (1954 to date) attached, it will be noted that Quebec Central growth has been slow due to the fact that the funds in Central are only the reserve funds of our Credit Unions.

As far as Credit Unions interloaning with one another it is exceptional for our Credit Unions to borrow from each other. Only our larger Credit Unions would transact this type of lending. We have tried to educate our Credit Unions to make full use of Quebec Central Credit Union. Our larger Credit Unions create a line of credit with their respective banks, depending upon the volume of their assets.

Credit Unions grant credit to their general membership, whereas Quebec Central Credit Union has to give credit to Credit Unions and to the officers of Credit Unions where they are not

permitted to borrow from their own association. In this case Quebec Central Credit Union follows a policy under which the officer requesting credit from Quebec Central is permitted to borrow only an amount equal to that which he could borrow from his own Credit Union.

CONCLUSIONS

We submit there is incontrovertible proof:

1) THAT Credit Unions in the Province of Quebec are essential to the welfare and economic stability of more than 82,000 residents of this Province.

2) THAT the strengths of the movement far outweigh the weaknesses.

3) THAT there is room for considerable expansion of the movement in this Province.

4) THAT, with few exceptions, due mostly to human frailty and inexperience, all Credit Unions in this Province are operated and administered in accordance with the basic rules and principles of the movement.

5) THAT the financial position of the Credit Unions is sound.

6) THAT there are adequate safeguards for protecting the investments and savings of members.

7) THAT Credit Unions in this Province and elsewhere are a bulwark against the practices of those who consider usurious operations are more important than human welfare.

8) THAT despite the interest and best efforts of legislators, we have not yet reached the point where legislation is adequate to the needs of the movement.

9) THAT the movement as a whole and the operations of the Credit Unions in particular study, protect and defend the economic interests of what are generally described as "the working classes".

10) THAT in following these principles the Credit Unions do not compete with established financial institutions.

11) THAT our loss experience is very small and that stringent operating procedures provide adequate protection against such losses through the allotment of 10% of net income to reserve as a guarantee against such losses.

RECOMMENDATIONS

On behalf of the Credit Unions in the Province of Quebec, the Quebec Credit Union League submits the following recommendations:

1) THAT a Credit Union Act be introduced by the Quebec Legislature because this is the only Province in Canada in which such an Act is not in force.

2) THAT such an Act should be confined entirely to the operations of Credit Unions in this Province.

3) THAT applicable features of the Co-operative Syndicates Act be incorporated in this Act.

4) THAT the Co-operatives Syndicates Act should, thereupon be restricted in application to those groups or associations which come within the provisions of the Act as distinct from Credit Unions.

5) THAT, as there are at present several Credit Unions operating in the Province which do not come under the supervision of the Quebec Credit Union League, they should be subject to the same measure of supervision as our existing member organizations. In this connection it should be remembered that a Caisse Populaire cannot be organized under that name in the Province of Quebec, unless it belongs to the Federation of Caisses Populaires.

6) THAT the limit, under existing legislation, restricting married women savings in Credit Unions to $1,000. should be removed and that they should enjoy the same privileges, in this respect, as single women who are members of Credit Unions in this Province.

7) THAT in any amendments to existing legislation or introduction of new legislation, married women should be permitted to hold office and to vote in exactly the same manner as other members, men, and single women.

8) THAT in any amendments to existing legislation or introduction of new legislation, members of Supervisory and Credit Committees should be permitted to borrow from their own Credit Unions on the same terms as members and Directors of those Credit Unions. In this connection it should be remembered that the Province of Quebec is the only Province in Canada in which they are not permitted to borrow from their own Credit Unions. Instead, they must submit their applications to the Quebec Central Credit Union.

We recognize, of course, that the Royal Commission on Banking & Finance is a body appointed by the Dominion Government and that the foregoing recommendations are concerned solely with matters

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We recognize, of course, that the Royal Commission on Banking & Finance is a body appointed by the Dominion Government and that the foregoing recommendations are concerned solely with matters

within the jurisdiction of the Province of Quebec.

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APPENDICES

A. Co-operative Syndicates Act

B. Quebec Credit Union League By-Laws

C. Credit Union Standard By-Laws

D. CUNA Mutual Loan and Savings Pamphlet

E. Bonding Insurance

F. Credit Union Papers:

What is a Credit Union?

What is a Credit Union Worth?

Personnel Opinion.

What Employees Think of Credit Unions.

G. Education Material

Material Used at Schools for Directors

Material used at Managers' Week-end Work Shops

Material Used at One-Day Sessions for Credit Committees

Material Used at One-Day Sessions for Supervisory Committees

Manual for Managing Directors.

H. League Services:

This is What Your League Means to You.

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Royal Commission on Banking and Finance

Hearings held at

Montreal

Vol. 16

Date. May 15 1962

Official Reporters
F.J. Nethercut and R.J. Young
Toronto, Ont.

[illegible]

[illegible]

[illegible]

[illegible]

The Hon. [illegible]
Chief Justice [illegible]
Toronto, Ontario [illegible]

Mr. W. Thomas Brown, [illegible]
Investment Dealer
Vancouver, British Columbia

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

ROYAL COMMISSION ON BANKING

AND FINANCE

I N D E X

ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Montreal,
Quebec, on Tuesday,
May 15th, 1962.

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H.A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary

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Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Mackintosh
Queen's University

Mr. H.A. Hampson

Mr. Gilles Mercure

Montreal, Quebec,
Tuesday, May 15th, 1962.

--- On resuming at 9.30 A.M.

SUBMISSION OF LAURENTIDE
FINANCIAL CORPORATION LTD.

APPEARANCES

Roland Therien	- Senior Vice-President
Andrew Saxton	- Executive Vice-President
Peter Paul Saunders	- President
William Donnelly	- Assistant to the President
William Warrington	- Assistant Vice-President

THE CHAIRMAN: This morning we have a submission from the Laurentide Financial Corporation Ltd.

MR. THERIEN: I should like to introduce the members here. My name is Roland Therien and I am senior vice-president of Laurentide Financial Corporation Ltd. Andrew Saxton, on my immediate left, is the executive vice-president. Next is Peter Paul Saunders, the president. Next to him is Bill Donnelly, assistant to the president, and finally Mr. Bill Warrington who is assistant vice-president.

Thank you.

(Reads summary of brief.)

Tuesday, May 15th, 1962

--- On resuming at 9.30 A.M.

SUBMISSION OF LAURENTIDE FINANCIAL CORPORATION LTD.

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Thank you.

(Reads summary of brief.)

(See Volume 15A.)

THE CHAIRMAN: Thank you Mr. Saunders.

COMMISSIONER MACKINTOSH: Mr. Saunders, in your brief you gave a very full and interesting exposition of the financial structure of your company and the sources of the funds. I notice that you say there that you have found the obtaining of equity capital to be the most expensive method of raising funds. I wonder if you would be good enough to elaborate on that and let us know just where the extra expense and cost of this method of financing comes in?

MR. SAUNDERS: Certainly Dr. Mackintosh. A finance company's merchandise is money. Therefore we have to look at various sources of obtaining money, but each dollar bill looks the same. The cheapest money, of course, that we can raise is the shortest term period money. We pay interest rates which are a fraction of one per cent; maybe one-quarter of one per cent above the treasury rates at the time. Starting from that basis, the longer term the money is, the more expensive it becomes until we run through our whole range of borrowings. Then we get into our preferred stock which, in our case, again is nothing more than some way of attracting merchandise, because the dividends on preferred shares are paid after we have paid our corporate income tax. In effect, the rate we pay on preferred stock is double that which the coupon

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carries. For this reason we feel that preferred share financing is the most expensive money we have.

COMMISSIONER MACKINTOSH: You attribute it largely to the tax position?

MR. SAUNDERS: That, of course, is the major difference. For instance, back about a year ago, or it may have been two years ago now, when we raised an issue of bad debentures and an issue of preferred stock concurrently, at that particular time the interest coupons on the debentures and the dividends on the preferred stock were about one-quarter of a per cent. The preferred stock actually had a lower ticket on it than the debentures. On the other hand, as I have mentioned, the very fact that in the case of debentures we charged this as an expense whereas the dividend comes after the payment of taxes, the effective rate to us and the cost to our customer, or the return to our shareholder, which ever way we like to look at it, is double that which the coupon carries.

COMMISSIONER MACKINTOSH: Thank you. You give very full information also about your bank lines of credit. I do not see any comparable information about your United States lines of credit. How does your experience with United States banks compare with your experience with Canadian banks?

MR. SAUNDERS: The experience is somewhat different first of all because in the United States

[illegible] this reason we feel that preferred share financing is the most expensive money we have.

COMMISSIONER MACKINTOSH: You attribute it largely to the tax position?

MR. SAUNDERS: That, of course, is the major difference. For instance, back about a year ago, or it may have been two years ago now, when we raised an issue of bad debentures and an [illegible] particular time the interest coupons on the debentures and the dividends on the preferred stock were about one-quarter of a per cent. The preferred stock actually had a lower ticket on it than the debentures. On the other hand, as I have mentioned, the very fact that in the case of debentures we charged this as an expense whereas the dividend comes after the payment of taxes, the effective rate to us and the cost to our customer, or the return to our shareholder, which ever way we like to look at it, is double that which the coupon carries.

COMMISSIONER MACKINTOSH: Thank you. You give very full information also about your bank lines of credit. I do not see any comparable information about your United States lines of credit. How does your experience with United States [illegible] Canadian banks?

MR. SAUNDERS: The experience is somewhat different first of all because in the United [illegible]

there is a very great number of banks. Some banks have specialized in lending money to finance companies. For instance, in the state of Illinois there is legislation which prohibits a bank from having more than one place of business. There was a time when one of the larger banks there bought another bank of some size and they practically had to tear down the roof and kept on going up because it had to be all in the same building.

In that particular situation the Chicago banks are very anxious to lend money to finance companies because it is their method of participating in the growth of the country.

COMMISSIONER MACKINTOSH: You mean that the finance companies act almost as branches for the banks?

MR. SAUNDERS: Yes, but there is quite a variety. I went to one extreme, which is the Chicago situation. However, there are, of course, other banks in New York, California and elsewhere which are branch banks and have both wholesale and retail business. As far as our particular arrangements are concerned, we negotiate our lines of credit with these banks for a term period. In other words, if we go to the Bank of America, or the First National City New York Bank, or one of those banks, we establish with them a line of credit. They write us a letter saying this credit has been established for one year. We carry compensating

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balances which will fluctuate based on the size of the loan. We send them a note, let us say, made out for 60 days or 90 days, or 270 days, and that note stays with them, and on maturity we will redeem it, because in this regard there are no surprises. Sometimes these surprises are favourable and sometimes unfavourable. If there is a rate increase, or a rate reduction, this would not come into effect until that particular note matures. If the note is written at 4 per cent, it will run at 4 per cent until maturity even though there may be a general increased rate. If the rate goes up, we have the benefit of it. If it goes down, we suffer from it.

COMMISSIONER MACKINTOSH: How does this differ from Canadian practice?

MR. SAUNDERS: Canadian practice seems to be much less formal. We apply for a line of credit and a line of credit is approved. The establishment of that line of credit, although it is reviewed on an annual basis, is subject to cancellation,or subject to increase, as each party operates its business. The loans we make in Canada are on demand and in some ways this gives us greater flexibility because we can pay off on a daily basis and also borrow on a daily basis. On the other hand, the assurances of the funds are rather doubtful. We have become accustomed over the short period that we have been in business to rely on the availability of bank credit, and to rely on the availability of

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these funds. At the same time, there have been periods when we found that we could not rely on them. It seems to be very difficult from where we sit to predict when these periods will come, and the violence with which they will occur. For instance, one short period we had our bank loans reduced by about one-third. Of course, that one-third was not being used at the time, but in our budgeting we had always counted on the fact that it was there.

COMMISSIONER MACKINTOSH: What did you count on it for? What purpose did it serve to be unused?

MR. SAUNDERS: Well, you see, our business is a term business. We lend money today and our customers pay us back over a period of time. Because of that we can pretty well tell that our receivables will not be less than a certain figure, let us say six months from now, or one year and six months from now. At the same time, we make commitments to service future customers, to a large extent, through dollars, by the very fact that we advertise and offer our services. So, we know that there is going to be a demand on us for a certain amount of money. This will fluctuate quite a bit with certain seasonal factors. There are periods when merchandise moves faster and we know that we are going to do more business. There are other times when it is slacker.

Then again, we have a wholesale business whereby we acquire a piece of our dealers' goods from the manufacturers which they will put into

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inventory and sell off at a later time.

COMMISSIONER MACKINTOSH: Would there not be two things, Mr. Saunders? The unused portion of the line of credit is there in case you have extended need for credit later, but does it not also facilitate your short term borrowing in that it stands back of your borrowing from other sources?

MR. SAUNDERS: Of course it does. In the United States the commercial paper market is such that you look at your unused bank lines and if you have not got enough unused bank lines to pay off all your short term debt there is perhaps something wrong with your budgeting system. This has not been the practice in the Canadian short term market. We ourselves do not see much merit in going that far but it is certainly important to have some unused lines.

COMMISSIONER MACKINTOSH: I gather from your brief that since 1956 you have gone extensively into the short term money market because, I take it, your bank lines of credit were limited at that time, or even reduced. Does not that really put you in a better financial position, having been, so to speak, pushed off the dock?

MR. SAUNDERS: And learned to swim.

COMMISSIONER MACKINTOSH: Yes, you learned to swim.

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MR. SAUNDERS: And learned to swim.

COMMISSIONER MACKINTOSH: Yes, you learned to swim.

MR. SAUNDERS: Well, sir, it certainly has had a beneficial effect on our business. The greatest benefit has not only been in the availability of the money but in the fact we are able to borrow money at rates of interest which will fluctuate with general monetary conditions and which, of course, to the establishment of our credit has helped to reduce our costs. I don't know anything else that would have done more in the way of reducing our costs than reducing our money costs, because they represent more than half our total expenditure.

COMMISSIONER MACKINTOSH: I notice you say later on that Laurentide can obtain all the funds needed if it is willing to pay the price: Is this really true?

MR. SAUNDERS: It may be somewhat of a generalization because even though you have always been able to obtain it in the past there may be a possibility somewhere along the line you might not be able to.

COMMISSIONER MACKINTOSH: But is the short-term market --- and this may be theoretically true -- is the short-term market that broad and deep that you can draw funds out of it if you are prepared to pay a higher price?

MR. SAUNDERS: I believe it is, sir, and certainly if you are prepared to look at it on an international basis it is. There are possibilities, of course, that the Canadian end of the market might be dry for a little while, but I know even in August,

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COMMISSIONER MACKINTOSH: I am talking about change in sources of funds following this period of credit stringency. What happens to your American lines of credit when money gets tight? What difference is there with Canadian and U.S. practice?

MR. SAUNDERS: Our experience there is somewhat limited, but the limited experience we have had indicates that there is no reduction in the lines of credit, or, at least we haven't seen any. The banks at that point become more cautious. They don't know you very well. They don't particularly want to talk to you, and if they don't have an account with you, or you don't have a line of credit established, they certainly won't open a new one, and, of course, during that period we have talked to a number of banks with whom we had no previous account and they said, "We are very sorry, we are not opening any more financial lines at this time." But those banks with whom we have had a steady relationship did not reduce the lines; they honoured them. There seems to be also some conversation of a different nature: For instance, the banks will phone our treasurer and say, "If you can put a little money in that account, or reduce your borrowings for a little while, because in our particular area fruit is being harvested right now and we would like the money to be available for the farmer, it

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would be appreciated." Another bank may say, "Our year end is coming up and we would like to see our loans at a maximum." This is not confined necessarily to the smallest banks.

COMMISSIONER MACKINTOSH: Do you get phone calls of that kind from the First National City?

MR. SAUNDERS: Not necessarily phone calls, but they have their men coming around visiting. This may be salesmanship but may not be the exact statement of the facts. We have had large banks from New York giving us encouragement to borrow or not to borrow.

COMMISSIONER MACKINTOSH: Do you suggest we recommend chumminess to the Canadian banks?

MR. SAUNDERS: I am only trying to give you a picture.

COMMISSIONER LEMAN: Before we leave that, I would like to ask another question. In the U.S. the banks are in the same field as you are to a certain extent, aren't they? You just explained to us that some banks have been practically using the finance companies as an intermediary, so would you say that in the U.S. some banks are not in the retail field and do lend finance companies, and other banks do both?

MR. SAUNDERS: That is correct. Of course, the amount of interest they have in lending money will vary to some extent on whether they are in the field themselves or not. As I mentioned, for instance, the traditional bankers of the finance industry in the U.S. were the Chicago banks, and they are considered

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COMMISSIONER LEMAN: But when you find a bank loaning to a finance company and being in the retail field of loaning at the same time, that creates a special kind of relationship, doesn't it?

MR. SAUNDERS: Yes.

COMMISSIONER LEMAN: You complain a little bit about that relationship in Canada, but to the extent the same relationship obtains with certain banks in the States, what is the difference in the treatment?

MR. SAUNDERS: Well, there are several differences: One of them is that in the United States it is quite well accepted by the general public that banks, although they are in this business, have a wholesale and retail rate. We do not borrow our funds from the Bank of America at the same rate as the man who buys an automobile from a dealer does. The rate which he will obtain from the bank won't vary a great

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deal from the rate he will get from us. So, there is the question of the wholesale and retail rate. In Canada, of course, most people are under the impression that the rate which the bank charges is a wholesale rate, and this wholesale rate only tends to confuse the public.

The other question is a matter of size. There are a large number of banks in the United States -- about 14,000 of them -- where some are extremely big and others very small. We operate in certain areas and deal with certain banks which are not as big as we are. The ability to compete is spread between a much larger number of banks than the finance companies.

Thirdly, perhaps it was not always this way, but it has developed over the years that the banks are quite able to separate their personal loan departments and their commercial departments, and again that makes things a little easier when it comes to supplying information or dealing with them.

COMMISSIONER LEMAN: They have a much more flexible schedule of rates in the States?

MR. SAUNDERS: First of all, they have a much more flexible schedule. Secondly, the image which the public has is a truer one. Thirdly, there are many more in competition, and therefore the competition is more of a real competition.

COMMISSIONER BROWN: I wonder if I could ask one question on this matter of money costs. When your money costs went right up -- in other words, at

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this time when the Treasury Bills rate went up through the 6 per cent, and these 180-day bills through 7, and your short-term costs therefore went up too -- how did that affect your operations?

MR. SAUNDERS: First of all, I stayed awake for about two nights trying to find a place to borrow money.

COMMISSIONER BROWN: It was the company I was interested in.

MR. SAUNDERS: But the effect of it was that where our costs went up, they went up on the end where normally they are low. In other words, our funds -- most of them are borrowed on a composite basis. Some is long-term and some is short-term, and the composite rate immediately went up, but the effect of it took some time until it was fully realized. We in turn raised the rate to our wholesale clients, and we also tried to raise the rate to our retail clients, but because of the fact we could not tell just how long this condition would last, and our retail clients are with us for a longer period of time, the rate revisions certainly were not as violent in our retail structure as they were in our immediate cost. Of course, competition is another factor as well. The effect of it was that for the period of this very serious increase in costs our profits were squeezed and we tried to find some way of bringing this whole thing back into adjustment. Of course, as the cost of money became more normal, it automatically adjusted itself.

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resistance at the retail level to your increases? This is one of the things in which we are interested -- how the effects of monetary policy work down on the individual and on the commercial enterprise?

MR. SAUNDERS: I would say there is always resistance to rates going up, but basically at a period when money is hard to obtain people will pay just about anything for it. We could have easily raised our rates much higher than we did and still made loans or done business. We did not think this was the thing to do. We did not want to have too violent a fluctuation, and perhaps especially because we know that our customers are term customers and they stay with us for a period of time. We tried to budget on a basis so that we will recover our additional expense, but we won't drive up costs altogether, and, of course, even if we decide we want to do that, competition would not let us.

THE CHAIRMAN: Were conditions such at any time that you were forced to increase the rate imposed on the customer?

MR. SAUNDERS: We cannot touch the rate on those customers who are already ---

THE CHAIRMAN: No, not that are already customers: On new customers?

MR. SAUNDERS: Yes.

THE CHAIRMAN: But did that affect the volume of your business?

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THE CHAIRMAN: The prospective customers were not discouraged as a result of some increase in the cost?

MR. SAUNDERS: Not in a period like that. Under normal conditions customers are quite conscious of cost, but when money tightens up everybody wants to get their hands on it because they don't know whether next month it will be higher than it is now. Besides that, there is usually an economic reason for this tightening, and those people want to avail themselves of credit and they don't seem to care about the cost at the time. We didn't try to raise it too violently, and if we had we might have had a different experience.

THE CHAIRMAN: But you did have to raise it to some extent?

MR. SAUNDERS: Yes, especially to our wholesale and industrial customers.

COMMISSIONER MacKEEN: You probably kept a more or less normal spread between the cost of money and the attempt to keep the normal spread?

MR. SAUNDERS: Yes, that is correct.

COMMISSIONER MACKINTOSH: Could I ask another question on the source of funds: How far are the U.S. and Canadian sources alternative -- that is, I understand that you borrow money in the United States for United States operations, and similarly in Canada, but if money conditions are not too favourable in Canada can you shift more borrowing to the United States or vice

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versa? Are these substitutes for each other?

MR. SAUNDERS: It can be done, but it does involve certain problems. Some of the larger American banks are quite happy to lend us money, but because we would be borrowing it in United States funds we would be taking an exchange risk which we would rather not do if we don't have to. Also, if that particular bank has no particular Canadian business of its own, then withholding taxes would be lost on the rate and either they would have to absorb it, or we would. Again, we are not as well known in the United States as we are here, and we would have to go to quite a salesmanship drive to cover a large number of banks.

COMMISSIONER MACKINTOSH: I notice you have had quite a remarkable rate of growth, and you explain this has been in the face of fairly severe competition. Competition has not been so severe that it has seriously reduced your rate of growth. It is not quite clear from the figures how much of this rate of growth involves the taking over of other companies or whether it is all a genuine increase in the share of the market and not simply amalgamation. You do suggest later on that your competition was such that you were unable to maintain your profit margins by raising your lending rate sufficiently in times of tight money. This, I take it, did not affect your rate of growth, from what you have said earlier. It must, therefore, have affected your profits. Is that the interpretation?

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MR. SAUNDERS: Well, sir, we feel that it did affect our rate of growth. Perhaps we are not the

best people to speak about growth because we have had a fairly steady growth, but looking at the industry figures, the industry has slowed down its rate of growth in Canada, and our Canadian curve follows the industry curve. Perhaps it is growing a little faster, but our latest growth has come on our international expansion and this, of course, has augmented our profits, but it was not the outcome of lack of competition at home. The two factors have to be separated a little.

On page 22 we have a table which shows the growth of the finance industry relating it to the growth of such other institutions of the chartered banks and the credit unions, and you will see there that from 1957 to 1961 the finance companies had grown by about 20 per cent, which is by far the smallest rate of growth of the three shown on the table.

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THE CHAIRMAN: To what do you attribute that?

MR. SAUNDERS: You mean the lot of --

THE CHAIRMAN: This is a diminishing increase in growth of the finance companies as compared with the increase in growth of the banks and credit unions relatively.

MR. SAUNDERS: Well, one of the first reactions we would have is that the material has been reassigned between these various institutions.

THE CHAIRMAN: By whom?

MR. SAUNDERS: By the consumer, the customer.

THE CHAIRMAN: So what?

MR. SAUNDERS: We are of the opinion that we would like to keep that customer.

THE CHAIRMAN: Why can you not?

MR. SAUNDERS: Because of the fact that they (1) feel that they are getting money much cheaper from some of our competitors --

THE CHAIRMAN: Why should not they have that opportunity?

MR. SAUNDERS: We feel they should provided that, of course, we would like to serve them on the same basis but our costs are based on borrowing money on a long term basis and therefore we cannot make money available at a rate which would be, let us say, 6 per cent simple interest, and that is what many people think they are borrowing money at when they are borrowing it from some of

these other institutions.

We certainly are of the opinion that like any other merchandise money has its place, and that the customer, the general public, is entitled to get it at the best possible cost. We, as a company, are concerned with the fact that we can be easily undercut and we have examined the reasons for that.

THE CHAIRMAN: Of course we are not concerned with whether your company makes a profit or not; we are concerned with the broad picture and if the consumer feels that he is better served through going to some other type of institution is there any reason we should recommend, after our considerations are over, that some limitations should be put on these institutions which are giving to the customers something they apparently want?

MR. SAUNDERS: Not for that reason. But there may be other reasons why they should. We feel on that particular basis of reasoning we have no quarrel and we are quite prepared to compete and if we come out second best, that is our fault. There may be other reasons too, we feel, that perhaps lending activities of the various institutions should be examined, that there may be some reason why term lending of the type we grant could be supported by term borrowings on the part of the lenders. That is where we feel our function lies in borrowing money on various terms and lending it out to the customer over a period of time.

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COMMISSIONER MACKINTOSH: What you have just said suggests something. As I recall it there is no comment in your brief on the suggestion various groups made that all financial institutions, finance companies, banks and anybody dealing with this kind of credit should be required to make a disclosure of the rates comparable to a simple interest rate. You say the impression is abroad that the banks are lending at 6 per cent. What do you think of the requirement for disclosure.

MR. SAUNDERS: Dr. Mackintosh, we have mentioned it in our summary on page 3, and I am just looking now for where we have referred to this in our brief. We feel that the government should act to develop uniform disclosure laws throughout Canada. We feel that disclosure is something which we ourselves practice and which we would like to see practiced throughout the industry.

THE CHAIRMAN: Before you go on, I would be very much interested in having some more exact picture as to what you disclose and how you disclose it. You say, as I understand it, that the manner in which you make disclosure is a fair one, and if that were adopted by other institutions it would be an improvement -- is that correct, is that your position?

MR. SAUNDERS: If it were adopted by everybody at least it would be uniform.

THE CHAIRMAN: So that there would be no complaint from any people, because there would be no

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THE CHAIRMAN: So that there would be no complaint from any people, because there would be no

different method of disclosure so there would be no misunderstanding amongst the customers?

MR. SAUNDERS: That is right.

THE CHAIRMAN: I am interested in knowing exactly what you disclose in your finance company as to the composition of the rates that you charge.

MR. SAUNDERS: We set out the price of the item and then, of course, the down payment, if any. We then show the amount to be financed and then we set out the finance charge.

COMMISSIONER MACKINTOSH: In dollars?

MR. SAUNDERS: In dollars, and if there are other things sold by us such as general insurance coverage, or something else, that is shown as a separate item as well. We think the most significant disclosure is the matter of dollars and cents at a time when the customer can get simple interest which is not simple; it is very difficult for people with some inexperience to end up with the amount of simple interest. To give you an example, one of the provinces has recently enacted legislation requiring disclosure of charges on conditional sales contracts. This particular Bill, which has not yet become law, requires the disclosure of nine items. One of them is the amount of interest charged and how it is calculated. There is room under the same nine points for other charges, flat charges, service charges, and charges for the privilege of doing business on credit. As such, the interest charges on transactions may vary greatly

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from the opinion of one company to the opinion of another. That tends to mislead the public because it would be quite possible to take an amount of $50 and say that $44 is the amount of the item and $6 the amount of finance charge. On the other hand it might be that the interest was $44 and the item $6.

THE CHAIRMAN: Is there only one province that has this act in mind?

MR. SAUNDERS: This is the newest one, the province of Alberta.

The legislation in these various provinces is not uniform. We feel that whatever is good in this general area, as far as one province is concerned, is not materially different in another. People do move around. Periodicals, magazines and various literature pass over provincial boundaries, and to have uniform disclosure would be in the best interests of everybody.

We feel and would like to suggest that all charges made for the use of credit should be included there. We realize that it is quite possible, as I have mentioned, in the case of this new legislation to separate interest, to separate service charges and separate the various other items. By separating, if sufficient, and naming individual items each one could become in itself misleading. Because of that we feel that a charge which is made for the use of money over a period of time including various services which are involved in the making of that money available should be lumped together as a financial charge. This would be in the best interests of the consumer.

THE CHAIRMAN: Have you any forms with you? I suppose on your printed forms you make the disclosure you have described?

MR. SAUNDERS: Yes, sir.

THE CHAIRMAN: Have you any samples of those forms?

MR. SAUNDERS: I am afraid we do not have any with us.

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THE CHAIRMAN: I would be rather interested

in seeing exactly how you set it out. If you could send us a form in due course, or perhaps one to each member, it would be appreciated.

MR. SAUNDERS: I would be glad to do that, certainly.

COMMISSIONER LEMAN: Mr. Saunders, you explained a few minutes ago that the customers in general were not very sensitive to changes in interest rates.

MR. SAUNDERS: Yes.

COMMISSIONER LEMAN: Yet this matter of explaining to him exactly what he is paying you seem to imply is of great importance. From what point of view does it have that importance?

MR. SAUNDERS: Let us say that the sensitivity of a customer will vary depending on whether at that particular time he really wants to arrange credit or not. Whereas a person might feel that he particularly wants to make some arrangement today, three weeks later or two months later he might say, "Well, I didn't understand what I was doing, I was a fool", so he is dissatisfied. We like to serve these customers. A good deal of our business is based on repeat business and we like to satisfy them from the point of view of telling them what they are doing. Also we do not mean to imply that there is no interest whatsoever by the customer in what he pays for the financing service. Certainly today if you will examine even the average daily newspaper you will see quite a variety of advertisements aimed at that customer

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either making him feel that he is getting something for nothing or that he is getting it at a rate which is not too dear. We feel that to eliminate the confusion is in the best interest of everybody.

As far as sensitivity goes, I would say that there are periods when customers are very sensitive to cost. They might not understand it. For instance, this may be an unusual sort of example, but let us say if this chair were offered for sale at $50 and you walked into a furniture dealer who said: "There is a chair and it is $50," that is understandable. But, if it said in the offering of this chair for $50 that the lumber content is $4, the upholstery is $6 and the leather is $8, and lists transportation and all these other items, then if somebody were to advertise in the newspaper a picture of the chair saying the lumber content $4, I think that would be misleading and it would not be in the best interests of that customer. That is the thought which we had in mind.

COMMISSIONER LEMAN: Now, does the problem arise from the point of view of who really deals with the customer? It is at the point of sale that this disclosure should take place, is it not?

MR. SAUNDERS: At the point of obtaining credit which, in the case of purchase credit, is at the point of sale. If it is another type of borrowing, it is wherever the borrowing takes place. Of course our loans made under the Small Loans Act are already uniform because of the legislation affecting

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them.

COMMISSIONER LEMAN: At one place in your brief, I think it is in paragraph 75, you make reference to the image of finance companies in the public's mind. You say:

> "The reason that competition is unusual is that the favourable publicity given government and chartered bank policy in action has created an undesirable and distorted image of the finance company in the eyes of the public in Canada."

Is it in this field that we are now discussing; is that what you are referring to there?

MR. SAUNDERS: This is part of it.

COMMISSIONER LEMAN: In other words, what is the unfavourable image that you think has been created, and what were its causes?

MR. SAUNDERS: I do not think we have said it is unfavourable. We feel that there is an undesirable image.

THE CHAIRMAN: An undesirable and distorted image is what you have said.

MR. SAUNDERS: Yes, but there is a difference.

COMMISSIONER MACKINTOSH: Perhaps there is an undesirably favourable image.

MR. SAUNDERS: We feel that the image in the minds of a number of people is that there is a 6 per cent ceiling discussed in the Bank Act, and there has been a policy followed over a period of years whereby this 6 per cent ceiling was a very favourable

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MR. SAUNDERS: We feel that the image in the minds of a number of people is that there is a 6 per cent ceiling discussed in the Bank Act, and there has been a policy followed over a period of years whereby this 6 per cent ceiling was a very favourable

rate at which people borrowed money. On the basis of this experience going back hundreds of years -- or, at least over 100 years in our own country, a mutual trust between the customer and the bank has created the feeling toward this 6 per cent, or lower than 6 per cent rate. Lately certain different methods of calculating this 6 per cent have come up with different answers. We are dealing with this image and suggest that this does not any more represent the true difference. We also feel this is not what we consider desirable. We think it is distorted. This has been accentuated by the fact that the government, for instance, has organized small business loans and other types of special lending possibilities through the banks and not made these same offers through finance companies who are really in the business of lending to those same people. Once somebody comes in to borrow for one purpose he is going to stay and borrow for several other purposes. We think a man who comes in to make a small business loan may or may not make a small business loan but he is there to do business. That same person may very well be the one who would have bought equipment through the dealer, and that would have been financed through these channels while the credit lines were open and which have been diverted away from where they have been borrowing before into different directions. That is what we are referring to in paragraph 75.

COMMISSIONER GIBSON: Mr. Saunders, you say in your own submission that there is more than

rate at which people borrowed money. On the basis of this experience going back hundreds of years -- or, at least over 100 years in our own country, a mutual trust between the customer and the bank has created the feeling toward this 6 per cent, or lower than 6 per cent rate. Lately certain different methods of calculating this 6 per cent have come up with different answers. We are dealing with this image and suggest that this does not any more represent the true difference. We also feel this is not what we consider desirable. We think it is distorted. This has been accentuated by the fact that the government, for instance, has organized small business loans and other types of special lending possibilities through the banks and not made these same offers through finance companies who are really in the business of lending to those same people. Once somebody comes in to borrow for one purpose he is going to stay and borrow for several other purposes. We think a man who comes in to make a small business loan may or may not make a small business loan but he is there to do business. That same person may very well be the one who would have bought equipment through the dealer, and that would have been financed through these channels while the credit lines were open and which have been diverted away from where they have been borrowing before into different directions. That is what we are referring to in paragraph 75.

COMMISSIONER GIBSON: Mr. Saunders, you say in your own submission that there is more than

interest in the charges which finance companies make on their customers. Do you think that it is unreasonable that banks are making service charges for the items other than interest in connection with similar loans?

MR. SAUNDERS: No, sir, we do not. All we are trying to say, and perhaps we are not saying it very well, is that whereas in the case of finance companies it is generally expected that a charge is made on so and so many dollars and some people try to work that into an interest rate. That we feel is not reasonable because it does cover services as well as interest. In the case of, for example banks, a great deal of discussion takes place about interest and no mention is made of the service charge or of the balance that my be carried, or the other aspects of profitability of that particular money. Therefore, the two are not so far apart.

COMMISSIONER GIBSON: After reading your brief I took the trouble to look over some bank advertisements. It is true this is only one bank, but it all seemed to be on the basis on just what you are talking about; so much down-payment, so much monthly payment for a loan for a certain period of time. Is there anything misleading about that? I fail to find any statement in bank advertisements that they are lending at 6 per cent, except in the case of one bank which I take it was charging a simple interest rate of 6 per cent. You make this statement and I think you should document it if you can.

MR. SAUNDERS: Certainly the type of advertising

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MR. SAUNDERS: Certainly the type of advertising

that you have mentioned does not sound to be misleading. Although if, for instance, somebody practices let us say a profession and later on for some reason changes his occupation, the fact that he has been a professional man before carries some weight.

THE CHAIRMAN: Would you stop him from doing some other business or engaging in some other profession if he chooses to do so, if he were qualified?

MR. SAUNDERS: No, we are not suggesting that he should be stopped. All we are saying is if he has changed his position that that should become known.

THE CHAIRMAN: I do not follow that.

MR. SAUNDERS: Here is an advertisement, sir, of one particular bank and it sets out, as you have mentioned, the amount that would be required on monthly payments, and then in small letters it says the monthly instalment includes interest at 6 per cent per annum plus service charges.

COMMISSIONER GIBSON: You make the general statement about this and I think when one makes a general statement there should be reasonable evidence to back it up. I took a look at this and have been trying to get some evidence on it.

COMMISSIONER MACKINTOSH: Are you saying, Mr. Saunders, that the chartered banks should have remained respectable and slow and that they become active in this field?

MR. SAUNDERS: Well, because of the way you phrase that statement, Dr. Mackintosh, I do not

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MR. SAUNDERS: Well, because of the way you phrase that statement, Dr. Mackintosh, I do not

know how to answer it. But, I think perhaps if you were to ask me, do I think that chartered banks and finance companies should be in as active competition for the same customer borrowing or using credit over 24 or 36 months then I think I could answer that we feel that the two fields are separate and sufficiently separate that there should not be the same amount of conflict which seems to have existed over the past few years.

THE CHAIRMAN: We shall now adjourn for 10 minutes.

--- Recess.

--- After Recess.

THE CHAIRMAN: We will now resume.

COMMISSIONER LEMAN: Mr. Saunders, I feel there is a point which I should like to refer to. We touched on it in the first portion of the session but I do not think we have got a clear answer as yet, or as clear an answer as we may want in this regard. We may want to come back to this disclosure question later, but I should like to come back to the point of what is really the effect of restricted money supply in your field of activities. You may feel that at some point Laurentide by itself might not have been a large enough factor in the economy to reflect clearly the consequences of a restricted money supply, butyou can use opinions if you wish. What does it do? Does it affect the volume, or does it just raise interest rates?

MR. SAUNDERS: It affects volume quite decidedly.

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THE CHAIRMAN: We will now resume.

COMMISSIONER LEMAN: Mr. Saunders, I feel there is a point which I should like to refer to. We touched on it in the first portion of the session but I do not think we have got a clear answer as yet, or as clear an answer as we may want in this regard. We may want to come back to this disclosure question later, but I should like to come back to the point of what is really the effect of restricted money supply in your field of activities. You may feel that at some point Laurentide by itself might not have been a large enough factor in the economy to reflect clearly the consequences of a restricted money supply, butyou can use opinions if you wish. What does it do? Does it affect the volume, or does it just raise interest rates?

MR. SAUNDERS: It affects volume quite decidedly

First of all one of the things that happens in a case like that is that credit policies tighten up within the company for two reasons. One is because of the reduced amount of money available on the part of the company to service the requirements of the borrowers, and the other is that in a tight money period people generally are not able to support borrowings quite on the same basis, and often it is accompanied by such things as unemployment, reduced work weeks, lack of over-time pay and these various things, so that the amount of credit that a normal customer of ours should carry automatically becomes less. At the same time we have lots of money available to us. Now, looking at our particular company, you might say well, your credit supply stayed just the same and it does not appear that this has happened. Of course, we feel that in these various tight money periods, if they had not happened our credit might still have been steady, but it might have been at a higher rate. Part of our credit has come about from outside sources like our acquisition of American businesses.

Two things seem to happen when money tightens. One is we have less available to ourselves and, therefore, we restrict it to our customers and also the credit standing of the individual is distorted. It may be a temporary distortion. That might not be quite the right word to use.

COMMISSIONER LEMAN: Let us build a more realistic structure here. I should like to think of a period when money supply is tightened because at that

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COMMISSIONER LEMAN: Let us build a more realistic structure here. I should like to think of a period when money supply is tightened because at that

time the authorities feel that the economy is rolling a little too fast. Therefore you do not have unemployment. On the contrary, you have people working overtime and you have everybody extremely busy and you probably have a very good credit standing by the purchase of durable goods at that time. Let us think of such a period, and the money supply is tightened. In one portion of your brief you say you can get money at a cost. What we are trying to get at here is, does it just serve to raise interest rates or will it constrain your volume?

MR. SAUNDERS: Well, first of all as the cost goes up to us certainly there are types of loans which become less attractive to us. From that point of view automatic restrictions occur. Secondly, I can think of one tight money period where we had some obligations to finance a shipment of goods from a manufacturer to a retailer and we had to strongly curtail our retail credit to be able to use the money that we had for that very purpose. Perhaps we could have raised more money but it would not have been worthwhile. I think that we are not affected perhaps as fast as it might appear. In our experience the tightness of money comes some time after full employment and a real prosperous time. These things seem to happen a little bit later. Because of that we face certain problems. Maybe we try to look a little bit ahead as well, but we do feel in a tight money period individuals' credit is more carefully examined and we ration credit a little more, and sometimes quite a bit

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more.

COMMISSIONER MACKINTOSH: I should like to ask a question along the same lines. You say you assume that funds are difficult or expensive to get. Now, what kind of a signal goes down the line that rations credit? What are the practical steps?

MR. SAUNDERS: I think we have been rather poor in interpreting some of the signals.

COMMISSIONER MACKINTOSH: No, I mean what signal starts at your head office?

MR. SAUNDERS: In our head office?

COMMISSIONER MACKINTOSH: Yes.

MR. SAUNDERS: Normally we would write a circular letter to our branches, and we would say that credit should be granted on a tighter basis and, let us say, that down-payment requirements should be raised and the length of the term should be more carefully analyzed, and that borrowers' credit ratings should be scaled in the light of an economic period which may be less favourable than the one we presently know.

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Therefore our branch managers just by virtue of the fact they are assessing credit more carefully make fewer loans -- or, not necessarily fewer, but fewer than they would if they were to carry out under the formerly existing standard.

COMMISSIONER MACKINTOSH: I take it in addition you would have various offers of new business you would probably refuse in the circumstances?

MR. SAUNDERS: That is correct.

COMMISSIONER MACKINTOSH: To look after your customers.

MR. SAUNDERS: Another thing we do is ask our branches to carefully review the inventory position of various dealers with the thought in mind that inventory should be reduced to not use too much credit for that particular purpose; and keeping in mind their sales might decline and they should not carry too high an inventory.

COMMISSIONER LEMAN: I would like to get at the root of this thing. How rapid is this? You think you get a signal from the monetary authorities and then you proceed to pass that signal down the line: What makes you send that directive in the first place?

MR. SAUNDERS: Well, this is one of the things we are trying to touch on in this brief. We feel that we get the signals a little too late and, therefore, our reactions are forced to be harsher than we think is for the general good. What I mean here is that when we are completely dependent on bank credit -- which is not the case today, but it was in some of the former

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periods -- our lines of credit are frozen or reduced or curtailed in one way or another and, of course, we would act very harshly and quickly because we must operate within those lines, and in those cases the signals came from the local branch manager of one of the chartered banks. We think that monetary policy could come to us through a more direct route. Sometimes we become informed by reading the newspaper. Again, there may be better methods. We would like to see a method of smoothing out this rather jerky motion, because if I write a letter to all our branches and say, " You must keep your outstandings within the present totals of your branch", that is something he can plan on and work through, and he might say, "I will distribute it on a certain basis".

THE CHAIRMAN: Have you ever actually done that? You are talking about "if" you did that. Have you ever had to do that?

MR. SAUNDERS: Oh yes, of course, we have given directives, but sometimes they were much harsher than that. Sometimes they said, "You must reduce inventory by X dollars within a certain length of time", which might be a little bit harsh, but we would have to do it to react quickly enough, and inventory is where our loans are on demand, and that is the portion which can be collected in the fastest.

THE CHAIRMAN: Have you any copies of these directives? Were they in writing?

MR. SAUNDERS: Yes, I am sure we have.

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COMMISSIONER LEMAN: Are there not some built-in signals in your own business? Certainly, you can gauge demand from time to time, can't you?

MR. SAUNDERS: We can gauge demand but we also have a very aggressive sales force, and the statistics that appear are usually late -- the public statistics. When we see a strong growth, let us say, in a region or in an area, our first reaction is that our sales force is becoming very effective, and that is what the salesmen tell us -- we are doing a good job. Now we are in the short-term money market we have a better idea because we can see short-term interest rates taking a certain direction, but when the short-term market was relatively less important to us, and more and more of our confidence was in the banks, well then, this was partly due to our size which was much smaller than it is today, and partly due to the condition of the short-term market which is becoming more and more developed. Now we think we can see better signals -- at least, we are watching them perhaps on a different basis.

COMMISSIONER GIBSON: Would you regard a quite sharp rise in the short-term money market as a warning signal? What I am trying to get at is, what is an appropriate signal? What would make you feel you ought to tighten up a bit even though the demand was good and employment was high, because these things come at a time when they are going to check booms?

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This is when your tightening up could come.

MR. SAUNDERS: I would think, for instance, if we saw our short-term money drying up -- in other words, where we would have to put more salesmanship behind the sale of our notes -- and normally it requires very little salesmanship, because there is a market and we get our share of that -- and if we find notes don't sell automatically, to sell them we might have to raise our rate from time to time, and if we find Treasury Bills are up one-eighth or one-quarter from one week to another on a trend of five or six weeks, then I think we would begin to feel there is some tightening and we would try to assess our position in the light of the possible tightening up.

COMMISSIONER GIBSON: But would you be inclined to tighten up if there was a good demand for your own -- for instalment sales finance, and if this demand was of a satisfactory nature to you?

MR. SAUNDERS: We would be examining and restricting credit, as I have mentioned, by such means as raising down-payments or reducing the length of time over which the money is loaned. We would be looking at inventories more carefully, because this section is more flexible, and we would be -- because we would be anticipating that with tight money there will be a continuous demand for our product, and we would not want to be in a position where we have to refuse credit to good customers.

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signalling business. Suppose the type of signal you have in mind comes at a time when you, yourself, feel it is all wrong, that the monetary authorities in Ottawa are wrong, that this is the wrong time to do this: What would you do? If there is good demand for your product and you can see lots of good business coming, and you feel you can get money in the market and your liquidity position is good, and all of a sudden there is some kind of signal comes that the Governor of the Bank of Canada thinks you ought to reduce your business, and you say, "He is all wet. I want to increase it."

MR. SAUNDERS: It has not been our experience he discusses his thinking with us.

COMMISSIONER BROWN: Well, let us say there was a change back to the former system of a published bank rate, quite distinct from the current Treasury Bill rate, and an announcement of an increase in this bank rate: How would that affect you?

MR. SAUNDERS: It would certainly let us know on a more firm basis, because what I mentioned, Mr. Brown, was that we would see Treasury Bill yields rising on a pretty steady basis in a number of weeks, and then we would come to certain conclusions. We certainly would be assisted in coming to conclusions by an official action such as a change in the bank rate, and we would then know there is a signal for this. Of course, as businessmen, if our thinking disagreed with the obvious signs, it would be difficult to say whether we could ignore our own thinking, but if we were

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informed as to reasons which probably we were not aware of, and because of that our thinking may be different, and then our thinking may fall in line with official thinking. It is very difficult to interpret signals and translate them into your own business with responsibilities to your staff and shareholders, on the basis of, let us say, stated opinions, but if some reasoning were involved the conclusions we would arrive at may be more in line with the conclusions that I would think some of these public officials would arrive at. It may be we would arrive at it anyway. It may be when the bank rate moves up we would automatically feel that is just the signal we have been waiting for -- we think the same thing exists.

COMMISSIONER BROWN: Do you study each week the Bank of Canada statistics and changes in bank loans, etc.?

MR. SAUNDERS: I would not say we study them that carefully. We are interested in it, and we have some records of it.

COMMISSIONER GIBSON: Suppose you don't get any very clear signals -- and I suggest to you that the signals cannot always be clear because the monetary authorities are not sure either at times -- what are the things that would affect you most? Is it this short-term money rate? What are the things and environments you pay most attention to in considering whether you should change your policy?

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COMMISSIONER GIBSON: But at the other end of this picture, in reading your brief, I get the impression that you feel you have got a demand -- that is, your customers: The people financing the purchases of automobiles, and so on, which is pretty insensitive to interest rates. In other words, the interest rates going up or down a little does not make too much difference. Is that the kind of thinking contained in this brief? That is the impression I get.

MR. SAUNDERS: I would say the customer is always sensitive ---

COMMISSIONER GIBSON: Let us call it "charges" rather than interest rates.

MR. SAUNDERS: He is always sensitive to charges, but to some extent we are, because we are sensitive to our own costs and also to our projected expenditures.

THE CHAIRMAN: But your record would indicate you have been increasing your business from year to year without any setback.

MR. SAUNDERS: We have been increasing our business, but in one tight money period we have increased by the acquisition of another company.

THE CHAIRMAN: Oh, yes.

MR. SAUNDERS: And although our rate of growth is pretty well maintained ---

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separated. I was just looking over the figures in your brief: Page 1 of the printed statements at the back: "Finance Company and Retail Dealer Credit Extended to Consumers."

COMMISSIONER MACKINTOSH: It is the reproduction of the Bank of Canada tables.

THE CHAIRMAN: Yes. I notice, if you will look at the first column, Instalment Finance Companies -- that includes all, doesn't it -- that would include your type of business, anyway?

MR. SAUNDERS: Yes.

THE CHAIRMAN: There is a reduced amount of business done in 1954 compared with 1953.

MR. SAUNDERS: Yes.

THE CHAIRMAN: In 1953 it was $516 million.

MR. SAUNDERS: Yes.

THE CHAIRMAN: In 1954 it was $492 million. Then there is an increase in 1955, a further increase, quite substantial, in 1956, a further increase in 1957 and a decrease in 1958.

MR. SAUNDERS: Yes.

THE CHAIRMAN: Then you go on and you increase again in 1959, and you increase further in 1960, and in 1961 there is a decrease again.

MR. SAUNDERS: Yes.

THE CHAIRMAN: Well, those decreases do correspond, don't they, with the tightness of money more or less?

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was some tightening of money. So, looking at your business as a whole, and all the instalment companies, it would appear from that, on the surface at any rate, that they might have been sensitive to monetary policy.

MR. SAUNDERS: Yes.

COMMISSIONER GIBSON: I suppose they are also sensitive to good and bad automobile years.

MR. SAUNDERS: Oh, yes.

THE CHAIRMAN: Well, of course, the monetary policy may have affected that indirectly.

COMMISSIONER MACKINTOSH: Yes, but money didn't tighten up early enough in 1958 to affect this reduction. It was rather late in 1958.

THE CHAIRMAN: Well, the automobile business perhaps was declining at that time.

MR. SAUNDERS: We think we are very sensitive to what is happening on monetary policy, and we also feel that besides being sensitive we also try to maintain our own growth rate, and when certain areas affect our business, let us say, either in one part of our business or in another, we try to look to the other parts which are not affected. For instance, in periods when some other reason affects the total volume of business we do in our finance operation, we suddenly become more interested in our insurance business, and this is not coincidental, where we begin to look more progessively towards new markets, like we did last year when we bought this American company. By looking at our consolidated figures you can obtain the impression we are growing nice and steadily all the way through,

and this is exactly our aim, but in certain segregated parts of our business we are affected, and that may be causing us to make a move in the other direction at that particular time.

COMMISSIONER BROWN: I get the impression that you regard the present application of changes in monetary policy as being rather a blunt instrument which at times hits you more harshly than other segments of the economy. What positive suggestions have you got to make such as would mean that monetary policy would affect you proportionately to other parts of the economy?

MR. SAUNDERS: There are some suggestions.

COMMISSIONER BROWN: You have got some suggestions on the positive end of it.

MR. SAUNDERS: Yes.

COMMISSIONER BROWN: Have you any suggestions on the negative side of it. You deal with the negative side first and then ---

MR. SAUNDERS: I am not quite sure that I understand what you mean.

COMMISSIONER BROWN: Well, you have got some suggestions about when the monetary authorities wish to increase money supply and how you think you should participate more fully in it.

MR. SAUNDERS: Yes.

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the government, or whoever is directly responsible for the actual creation of that policy, arrives at those conclusions based on reasoning, and we would like to be included in the knowledge that generates that conclusion. Then we could anticipate certain changes and we would naturally co-operate. Many times we have felt tightening as it did occur was in the interest of everyone, and we would like to co-operate. We are not here from one day to the other. We are interested in the long-term over-all prospects of the economy, and sometimes even though it may not be in our immediate short-term interest it is very much in our long-term interest to see certain things developed, and we want to co-operate, but we are not able to due to the fact we don't know too much about what official thinking is. Of course, we can read certain figures and releases, but we may not come to the same conclusions as the officials.

COMMISSIONER BROWN: This arises because when this was attempted on a voluntary basis there were some corporations in the finance field who felt that they would not co-operate and they did not need to co-operate because they had access to funds outside the Canadian economy. How do you feel something could be arranged so that everybody would fall within the same sphere.

MR. SAUNDERS: We are aware of the fact -- and I don't know whether this is exactly what you are asking, sir -- but there are finance companies and there are finance companies, and they are not all

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MR. SAUNDERS: We are aware of the fact -- and I don't know whether this is exactly what you are asking, sir -- but there are finance companies and there are finance companies, and they are not all

equally affected by the same particular conditions. What I would term a pure finance company, or an independent finance company like our own, is affected by things like short-term money market fluctuations, our dealings with bankers on credit lines and things like that. There are other finance companies -- and some of them are part of merchandising concerns -- others are subsidiaries of manufacturing businesses or subsidiaries of retail distributors -- and these, of course, are only part of that particular enterprise and they are not affected exactly in the same direction as somebody who has only that particular part of it, and we have suggested that this is an area which could be studied because the reaction of an independent finance company to monetary controls or monetary policy is quite different from the reaction of a so-called captive finance company to the same type of regulations or the same type of policies.

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This, of course, creates a competitive factor in our industry. There may be a situation where you want to co-operate with policy and you also have to maintain your competitive position in the industry. It is a very tight line that you have to walk to keep both forces in balance.

COMMISSIONER LEMAN: Well, what would you do about it?

MR. SAUNDERS: We have been thinking about it. We have brought it to the attention of this Commission hoping that some answer would come about. We do think there are certain things that can be done. For instance, it might be possible to study the over-all flow of funds between the businesses other than the financing business and the finance company; such things as the payment for inventories are considered. There may be certain areas where the credit of the parent company is not, of course, subject perhaps to the same monetary policy or regulation as the credit to the finance company would be. If that happens then the flow of funds from the parent into the finance subsidiary ---.

There is nothing illegal about this but it is a circumvention of the intention of the regulation. This is an area that might be studied from the point of view of finding a way of discouraging such activity if it occurs. I would say that would be the direction in which we should try to analyze it. Of course, there may be certain problems that we cannot foresee that would make this very difficult.

COMMISSIONER LEMAN: Well, would you come

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COMMISSIONER LEMAN: Well, would you come

right out in favour of selective controls?

MR. SAUNDERS: I am not quite sure what selective controls would be. We are not in favour of artificial means. We would be more in favour of eliminating the artificial advantages or disadvantages, as they might exist. That is why we feel that this is a field which should be studied.

There is an area where a captive finance company, of course, serves a useful purpose especially to its owner. There may be reasons why they might be quite willing to operate a captive finance company independent of the parent concern as far as monetary policy and regulations are concerned. This, of course, has not always been the case.

COMMISSIONER BROWN: In studying this we hoped that you as an expert in this field might give us some suggestion as to how this might be accomplished.

MR. SAUNDERS: I would like to see a more detailed examination of the flow of funds, or some control or regulation of the flow of funds because really after monetary policy is implemented by, let us say, restricting the bank credit of finance companies, and this, of course, is then passed on restricting the bank credit of all captive as well as independent finance companies, the parent company of that particular captive has a lot of credit available and it can funnel the money through. I do not think in that particular case it has served its purpose.

There may be some administrative methods of checking this type of flow of funds. Also when

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it comes to the borrowing, it affects the product which the captive finance company finances and this normally starts out with payments for inventory at the time the finance company's customer takes it over, and in a period of tightness the demand nature of such payment is deferred for weeks or months. This again is an additional source of credit which has been opened up.

We feel that these are the areas. I do notthink we are qualified to come up with anything more specific than those, except to say that there are certain companies which are not equally affected by the same monetary policy.

THE CHAIRMAN: Isn't that so throughout the whole system, monetary policy affects various people in different ways? People in a strong financial position can resist longer than others.

MR. SAUNDERS: Yes, that is true, of course, it does not have an equal effect.

THE CHAIRMAN: You have either got to accept that general position as the most effective way of dealing with that kind of problem or get into some system of selective controls. Is there any alternative?

MR. SAUNDERS: Well, there may not be but I am not quite clear of just what is meant by selective controls.

THE CHAIRMAN: But you are talking about a financing policy which you apply equitably to all finance companies, as I understand it. I may perhaps be putting it wrongly. One finance company has a certain relationship with a retail firm of some kind and might have a

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stronger financial position and be able to carry on for a longer time in spite of the increased rate of interest.

MR. SAUNDERS: But it is not the increased rate of interest in cases like that, it is the availability of funds.

THE CHAIRMAN: Well, it is all tied up.

MR. SAUNDERS: Yes. We feel that when restrictions are imposed, let us say on an industry, then obviously it is the intention ---

THE CHAIRMAN: Are the restrictions imposed on the industry or are they imposed generally upon the economy?

MR. SAUNDERS: Well, I think they are in some instances imposed on the industry and perhaps on the general economy as well, but there have been various instances where restrictions were imposed on the financing industry directly or indirectly. Now, this has had an effect on all the independent finance companies. It has not always had the same effect on the captive finance companies. For example, credit unions, which are very much in the same type of business that we are, do not seem to be affected at all, so I think the industry serving the public on that particular service is moving in one direction or the other, but the movement is not as clear or not as much in that direction as it could be.

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COMMISSIONER MACKINTOSH: I was wanting to clarify my mind on some points. You complain of unequal competition from the credit unions, the chartered banks and the Industrial Development Bank and your one point on the credit unions is that as cooperatives they are not subject to corporation taxes. Their limitation is, of course, that they deal only with their own members and do not deal with the general public and when you say they are big business, you mean they add up to a large aggregate of small businesses?

MR. SAUNDERS: We mean that, of course, but we also mean that some of the larger ones in that aggregate are big businesses on their own and we certainly feel that if a fraternal organization of some type is created for the benefit of its members that certain privileges may accrue to that group as compared to, let us say, the business proposition.

On the other hand, where we are aware of the fact that credit unions deal only with their members, the conditions of membership are not sufficiently serious that they would impede a very large disjointed group of people from belonging to the same union. For example, the common bond which might exist from people living in a city like Vancouver is one that I cannot personally see at all. Certainly, we who live there -- and I would say it would be comparable to the common bond which unites the 7,000 people who owns shares in Laurentide --

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COMMISSIONER MACKINTOSH: It must be pretty real, is it not?

MR. SAUNDERS: Well, it is a difficult one to define, sir, and we think that where the bond is not sufficiently restrictive that a very large number of people of not too common interest become members of the same organization, then that is not the original concept of a credit union, and as such if credit unions can advertise for members on the radio or television and own large blocks of real estate and have chequing facilities for their members, we do not disagree with this at all. After all, if they can do these things, then obviously they are providing a service. The only thing we do not understand is why they should have the privilege of not paying income tax.

We also feel that they should be subject to the normal expenses that every other business is subjected to including taxation.

COMMISSIONER MACKINTOSH: What else besides taxation?

MR. SAUNDERS: Well, I suppose taxation is the major one. I was thinking of the other things such as business licence which is taxation again and space requirements, and things like that.

THE CHAIRMAN: Those are all local matters, though, are they not -- business licences, et cetera? It is according to municipal regulations and they are different in different places?

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MR. SAUNDERS: Oh yes. All we are saying is that we think if they operate a finance business then they should be operating a finance business on the same basis as other finance companies operate a finance business and that is really our suggestion, that they should be subject to the same practices and taxes as the other companies are.

COMMISSIONER MACKINTOSH: Well, I wanted to be clear on that. Your references to chartered banks do seem to be divided into two different groups. Part of your complaint is, it seems to me, comparable with the complaint you get against any manufacturer who operates a small chain of retail stores and also tries to sell the retail trade and he gets into various difficulties and arguments competing with his own customers to a degree. But you also suggest that the banks have an unfair advantage in being able to take deposits. I gather a bank attracts deposits, accepts this liability and proceeds to distribute their funds among such assets as will give them both earnings and the necessary liquidity. You do not really want to get into the deposit business and come under the Bank Act, do you?

MR. SAUNDERS: I do not know whether we expressed it very well there, but our thought is the following, that the deposit business, when looked at in terms of loans which are on demand, is one where the lending should be on a short term basis, preferably also on a demand basis and we are somewhat concerned both for competitive reasons and also for

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other reasons with the very rapid growth of the term loan business handled by the chartered banks, and we would like to suggest that it might be wiser if their lending were in the demand loan area primarily.

We also submit that if we are wrong in this thought and the fact that demand deposits are loaned out on a term basis is not one which should cause serious concern, then we can reduce our rates to our customers if we were also in a position to take deposits and we would like to do that. We do not suggest we would like to have deposits; we do not suggest that our type of business is for demand funds and loaning it out on a term basis, but we might not properly understand all the factors involved. If this concern which we feel towards demand funds being out on a term basis is not a valid one in the light of past experience and future thought, then we feel that we would like to bring to our customers the benefit of a reduced rate as a result of operating deposit accounts.

COMMISSIONER MACKINTOSH: Well, the banks, as I understand it, operate quite a wide range of deposit accounts and they are by no means all demand deposits. I understand some of them now pay a higher rate on fixed term deposits. I would not think it has ever been a rigorous rule of banking that you, so to speak, invest your demand deposits only in short term assets. Clearly, they do not invest high proportions in long term assets. I always understood that part of the art

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MR. SAUNDERS: Well, we feel -- and this is our opinion but I do not think we are alone in this thought -- that demand deposits and even term deposits for a short term should be invested primarily in the type of assets which can also be liquidated quickly, and I think that our whole success in banking in Canada has had a great deal to do with the fact that our banks have always been very solid and they have not been so heavily in the longer term lending. Recently a trend has developed which has shown very rapid growth in the term part of the bank loans. If this were to continue -- and we think that sooner or later the point could be reached -- we would not be as liquid a country as we would like to see us be.

As we say, we do not understand all the ramifications of their problems. All we can say --

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rate based on the fact that we could reduce the cost of funds, and if with that we would be subjected to certain controls we would just have to accept those controls. After all, controls are not necessarily there to prevent you from doing business; often they are there to assist you in running a business the right way.

THE CHAIRMAN: You mean you are dealing with the possibility of entering into the demand deposit business yourself to some extent?

MR. SAUNDERS: Yes sir.

THE CHAIRMAN: Is there anything to prevent you from doing that now?

MR. SAUNDERS: Yes there is.

THE CHAIRMAN: Is there a law against that affecting your company?

MR. SAUNDERS: Yes, we are just not allowed to take deposits. It is in the Companies Act.

THE CHAIRMAN: Oh, the Companies Act under which you are formed?

MR. SAUNDERS: Yes.

THE CHAIRMAN: But there is no general law that would prevent it?

MR. SAUNDERS: I believe, sir, that every Companies Act stipulates that the company can do a very wide range of things --

THE CHAIRMAN: Your company is under the Dominion Companies Act, is it, or is it a special act?

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THE CHAIRMAN: Well, is there anything in any act to prevent them from taking deposits?

MR. SAUNDERS: Yes, I think there is.

THE CHAIRMAN: In the Federal Companies Act?

MR. SAUNDERS: Yes.

THE CHAIRMAN: And in the British Columbia one?

MR. SAUNDERS: Yes.

COMMISSIONER BROWN: What is your estimate of this amount of so-called term loans in the banks to which you are taking exception?

MR. SAUNDERS: Well, the personal loans of the chartered banks are somewhere over $1 billion. Again, page 1 of the appendix gives some figures. Also, page 3 of the appendix shows a breakdown of various loans. On page 1 of the appendix there is a table there, the second one, which shows the growth from 1953 of $300 million in this category --

THE CHAIRMAN: Which page is that?

MR. SAUNDERS: Page one of the appendix -- to over $1 billion in 1961. These are not all instalment loans but we have not been able to separate some of these out.

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types of industries. They are a significant amount showing a very rapid growth.

COMMISSIONER LEMAN: But let us say that you would accept demand deposits and that upon your doing so you would then be subjected to the same restrictions as banks on cash and liquidity ratios, do you believe that you would then have a net advantage over what your situation is today?

MR. SAUNDERS: We believe so, sir. We think that if we could take deposits then we certainly would be reducing our money costs. Our money costs represent about half of our total expense, a very significant item and therefore we could bring down the cost to our customers which we feel would be to the advantage of this company.

COMMISSIONER LEMAN: But you would then have a certain proportion of your funds in non-earning assets?

MR. SAUNDERS: We are doing that to some extent now. We have from time to time had very large amounts of money in government bonds to assure ourselves of the availability of cash. In our American operations we carry compensating balances with banks. With some of our Canadian banks we carry balances and we have this type of reserve now, although perhaps not to the same extent.

COMMISSIONER LEMAN: Well, it is an interesting thought. Did you really calculate what your position would be -- the non-earning assets you would then have to carry, the chequing

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COMMISSIONER LEMAN: But let us say that you would accept demand deposits and that upon your doing so you would then be subjected to the same restrictions as banks on cash and liquidity ratios, do you believe that you would then have a net advantage over what your situation is today?

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COMMISSIONER LEMAN: But you would then have a certain proportion of your funds in non- [illegible]

MR. SAUNDERS: We are doing that to some extent now. We have from time to time had very large amounts of money in government bonds to assure ourselves of the availability of cash. In our American operations we carry compensating balances with banks. With some of our Canadian banks we carry balances and we have this type of reserve now, although perhaps not to the same extent.

COMMISSIONER LEMAN: Well, it is an interesting thought. Did you really calculate what your position would be -- the non-earning assets you would then have to carry, the chequing

services you would probably have to give and the costs of that service -- did you figure it out?

MR. SAUNDERS: It is very difficult to come up with some absolute factual figures, but we had made some calculations as far as comparing the operating expense of the banking industry and our own company and in examining those costs we were able to satisfy ourselves that our operating costs are within the same range and therefore we feel that we could provide these services.

COMMISSIONER LEMAN: Dr. Mackintosh, you touched on the credit unions and the banks. Do you want to go to the third one here, the I.D.B.?

COMMISSIONER MACKINTOSH: I am conscious that our time is getting short. We will be receiving representations from the Industrial Development Bank. One thing that is forgotten is that the I.D.B. was established in 1944 and there were not many other institutions around looking enviously at the potential business. It was virtually alone and now, some decades later, this is a somewhat different field. Perhaps the I.D.B. should change its practice. Its rates, as I understand them, have always been above the chartered banks' rates which were looked upon as an alternative source in the early days and this assured the Industrial Development Bank pretty much that the funds were not available.

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Now, I gather the finance companies feel that they can attract those people as customers but at rates which would be higher

which I.D.B. is currently charging. Does this extend over just a number of individual cases that turn up annoyingly or is there a broad area or band of competition here? I think a good many of the Industrial Development Bank's customers are not eagerly sought after by other financial institutions.

MR. SAUNDERS: I think it is quite a broad band, Dr. Mackintosh. I am just looking for some examples, if you would like to go into it in a little more detail, but I would like to point out that quite a number of our customers who have been -- who have been our customers' accounts, for instance, are paid out by the I.D.B. That is really our idea of doing things in reverse because these people have had credit there and they replaced that with an I.D.B. bank loan.

COMMISSIONER MACKINTOSH: Well, were they in this position of getting larger bank finances from I.D.B. and just consolidating or have they just taken over your account?

MR. SAUNDERS: We have had people come into us asking for credit approval on a certain transaction on the basis that if they are not able to obtain the money from the Industrial Development Bank that we would loan it to them, and I think, again, this is doing things in reverse.

COMMISSIONER BROWN: They are becoming the lender of last resort.

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mind that because we feel we can judge credit as far as our customers are concerned. The only thing is we do not want the Industrial Development Bank to select away certain customers. There are instances where we carry very substantial inventories of equipment for dealers and we have access to a lot of information from these dealers because the inventories are financed by us and we see the sale of equipment going to construction companies, let us say, whom we would gladly finance and they are obtaining money from the Industrial Development Bank. This is not really the purpose for which we have carried the inventory for those dealers and we will not be able to continue to service those dealers on the same basis if their retail customer goes elsewhere.

We have also had the experience of looking at credit approvals and approving them and then seeing the same company with the same product take the loan from the Industrial Development Bank.

So we are quite sure that the area is a broad one. It is not a matter of one, two or three customers. I have just made a trip from Vancouver and stopped at about five or six of our branches in British Columbia and on the prairies, and I did not go into a single branch where they did not mention the fact that some of their customers are being refinanced by the Industrial Development Bank, or that the dealers are about to deliver certain equipment and the financing will be with the Industrial Development Bank. We think there is a little bit of misdirection of policy there, not in line with the original concept of it. It had been intended to be a lender of last resort, and now it is such that we are becoming the lenders of last resort. It is disturbing for us to see this. Our suggestion, of course, is that most of the money that the Industrial Development Bank disperses is intended to be risk capital, or take the place of risk capital, and as such it would be very sensible to give it the same income tax treatment as risk capital obtains, and this would have the twofold effect of making it truly a lender of last resort and also increasing the tax or bringing back some of the subsidy that the Industrial Development Bank loans create.

COMMISSIONER BROWN: This leads up to an obvious further question, and that is, if you are prepared to lend this particular company, and the I.D.B. lends it instead of you, and you feel the

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I.D.B. is really risk capital and the interest should not be allowed as an expense, then the obvious thing is why should it be allowed as an expense to you if it is the same money for the same purpose?

MR. SAUNDERS: What I mean is that if the I.D.B. is a lender of last resort, then it is dealing in risk capital and therefore it would be reasonable to give it the same treatment. We do not feel in the accounts which it takes away from us that it acts as a lender of last resort, and we feel the only reason those customers have gone to the I.D.B. would be a rate advantage, because we would be prepared to continue extending them credit further, and many of our competitors would be willing to do the same thing.

COMMISSIONER MACKINTOSH: We get very confusing evidence. People say that I.D.B. is so conservative and cautious that it does not affect anything and they ought to be putting equity into small business and doing all sorts of things, and the next group says it is iniquitous that they should take any equity in a small company and they are so aggressive that they are injuring the legitimate operators in the field. I think we are going to have a lot of questions to ask when we get to the I.D.B.

There is another matter I would like to ask about which I think need not take very long. You have a complaint that in those areas where government guarantees have been given they have been

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given only to the chartered banks. I take it this refers to what -- farm improvement loans, small business loans ...?

MR. SAUNDERS: Home improvement loans, farm improvement, small business loans.

COMMISSIONER MACKINTOSH: Generally speaking, this was a device to induce the banks to get into a field where they had not previously got their feet very wet. I would not be sure that the chartered banks needed all these guarantees now that they have learned to swim in that particular pool. Would the finance companies wish to share in these guarantees under the same conditions as the chartered banks?

MR. SAUNDERS: I am not sure if we know all the conditions, but in some respects we share in this business. For instance, we make loans to farmers when they purchase equipment, and we make loans to businesses when they buy fixtures and various goods, starting from automobiles to refrigeration and other type of equipment. We are in this field. We do not ask for subsidies. We service these people. If we were to expand our service beyond those with whom we now deal we would be glad to consider doing that with certain government subsidies, if they were warranted, but we primarily feel that --

COMMISSIONER MACKINTOSH: There is virtually no subsidy here. It is a guarantee that has in practice cost extremely little.

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[illegible] ice cost extreme.

MR. SAUNDERS: We are not aware of what it has cost.

COMMISSIONER MACKINTOSH: The figures are available for the past, I think under each of the acts.

MR. SAUNDERS: We feel this is a program which encourages customers to avail themselves of a government guaranteed service where otherwise they would be perhaps dealing with a company like our own. Of course, there is a rate differential; it is more attractive to borrow at 5 per cent than to borrow at double that figure, and it is therefore and advantage which we do not have, but we have been servicing these people. We are continuing to service them and we would like to continue doing that, and we feel we are in this business.

THE CHAIRMAN: The 5 per cent rate is made possible by the guarantee, I suppose, is it?

MR. SAUNDERS: I think so.

COMMISSIONER MACKINTOSH: Yes, but another way of putting my question is, would the guarantee make a 5 per cent rate possible for you?

MR. SAUNDERS: No, of course not, but we might not require the same guarantees. It seems to us that the intention here is not to provide loans or give credit to borrowers with cheaper rates, but rather to encourage credit to people who might be able to put it to use, and the finance industry is very well equipped to extend credit on a broad

scale, and it can broaden it if there are guarantees which would help to do that. We do not think we would require the same kind of guarantees. Marginal guarantees may be another method of looking at it.

COMMISSIONER LEMAN: Could we be a little more specific, then, as to your suggestion: suppose that you were managing the I.D.B. and were convinced it should act as a lender of last resort instead of the other way round. How would you proceed? We cannot just talk about this in theory, in a vacuum. What sort of proof that a customer cannot get his funds elsewhere would the bank insist upon before it would proceed?

MR. SAUNDERS: First of all, I would not use the proceeds from my organization to pay out accounts which are already being financed because there it is obvious credit has already been extended, so you would not need proof he can get it elsewhere or cannot get it; it is already there. This is a fairly important question.

Secondly, I think --

COMMISSIONER LEMAN: I am sorry: unless it was evident to the I.D.B. at the time that the customer's capital structure was all wrong. You run into situations like that, don't you? Some finance companies do the same thing sometimes, don't they -- in the small loan business?

MR. SAUNDERS: Yes.

COMMISSIONER LEMAN: So, you admit there are cases where a capital structure of a borrower must be

recast.

MR. SAUNDERS: Yes, that is true. Of course, it would be logical in a case like that to find out from a company who already is financing whether they would not consider re-financing it themselves. If it were not a matter of competition, because competition presumably does not exist between the I.D.B. and the other lenders, therefore the first thing that may be considered is to go to the finance company involved and say, "XY company needs to re-organize its capital structure. We are considering doing that. Would you be prepared to do it or not?", and if the answer is "no" then it is very clear money is not otherwise available. That would be one method.

At present I understand that the I.D.B. does take certain steps to assure themselves that, for instance, the money is not readily available from one of the chartered banks. One of the things they require is that the customer have a bank account, and they check with the bank where that account is whether they would be prepared to lend him money. Sometimes I understand they examine the possibility of long-term funds from a mortgage or insurance company and they satisfy themselves to the fact that one or two are not interested, so they come to the conclusion they are not interested. However, no such steps are ever taken with regard to finance companies.

COMMISSIONER LEMAN: They consult everybody but you; is that it?

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impression. We are just overlooked as if we were not here.

COMMISSIONER MACKINTOSH: You have a couple of suggestions near the end of your summary: I take it they also occur in the brief, but I don't know the place. The first is that the Dominion Government introduced accelerated depreciation schedules on capital equipment. Is this not in existence at present?

MR. SAUNDERS: Yes, there are --- as a matter of fact, we had another suggestion which we unfortunately had to leave out which had to do with the pegging of the Canadian dollar. This we left in because we felt there could be greater assistance -- more accelerated depreciation. This in turn would increase manufacturing of goods and it would create employment and would market these products and perhaps bring our whole industrial system into a more competitive position with certain countries whose costs are lower, and we are aware that there are steps taken in this direction but we feel we could go a little further.

COMMISSIONER MACKINTOSH: I am not now conversant with it, but my impression is that we are more flexible in this respect than in the United States jurisdiction, but less than some of the Europeans.

MR. SAUNDERS: I think that is the case. I am not too familiar with it.

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as these capital assets are concerned.

Your other suggestion is on the cancelling of withholding taxes on foreign owned corporations. This only affects really, I take it, non-taxable foreign corporations? If they are taxable in the United States their withholding tax is offset against the United States tax?

MR. SAUNDERS: Yes.

COMMISSIONER MACKINTOSH: Pension funds and that kind of thing?

MR. SAUNDERS: Yes, that is right. Withholding tax creates a number of problems which we feel would be improved by such a step. When we pay ourselves, if we do, dividends from some of our foreign operations subject to withholding tax in the United States ---

COMMISSIONER MACKINTOSH: You count that off against your Canadian tax?

MR. SAUNDERS: Well, in the case of dividends that does not quite apply, you see.

COMMISSIONER MACKINTOSH: Oh, no.

MR. SAUNDERS: We also feel, for instance, when we pay ourselves interest on money we loan to our own operations, withholding tax in both directions makes things very complicated -- more complicated than it needs to be.

COMMISSIONER GIBSON: Mr. Chairman, I would like to go back to the question of the response to change in monetary conditions. Let us make a few assumptions: Let us assume the demand for automobiles

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and appliances is good, employment is high, incomes are rising, and the demand for your services is strong, from good people: In those circumstances the short-term money rate goes up half of one per cent or something like this: Is there any good business reason why you should cut back to any significant extent in those circumstances?

MR. SAUNDERS: Well, Mr. Gibson, you have outlined a certain situation.

COMMISSIONER GIBSON: I have tried to outline the sort of conditions which have in fact arisen when we are in a strong upturn.

MR. SAUNDERS: Yes. The question in my mind is, just what other things are happening at the same time. When you say, are there any good business reasons, I can't say that just from what you have outlined there would be any good business reason why we should curtail.

COMMISSIONER GIBSON: This is what worries me, because in fact I think in periods of strong advance you have had those kind of conditions, and you have also certain other things, and consumer credit as well as a lot of other kinds of credit have tended to increase quite rapidly. There isn't anything necessarily wrong; I am not expressing a value judgment about this. I am trying to get at how the process works. You talk about taking a somewhat more restraining point of view when certain other conditions seem to have arisen. You have said it is good, prudent business to have a look at your accounts when there

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is some sign of unemployment and the risks are not quite as good. This is true. I think this occurs a little later in the day than when you have got a strong upward boom.

MR. SAUNDERS: I would say in the middle of the boom unemployment could be at its lowest point.

COMMISSIONER GIBSON: It is.

MR. SAUNDERS: But that is not the point at which credit becomes tight. In other words, at that point credit is fairly readily available from all sources, including the finance companies.

COMMISSIONER GIBSON: Well, it is perhaps beginning to get tight, and the short-term rates are going up, but your long-term rates haven't gone up very much, and the medium-term rates haven't gone up so much, but demand is good and maybe the interest rates the customer is paying are going up a bit. I am trying to envisage how this process works and whether it is reasonable to expect it to work until after we have passed the top of the boom?

MR. SAUNDERS: There are no automatic signals I know of that would say if short-term money costs go up from 3 per cent to $4\frac{1}{2}$ per cent over a period of 16 months, that would automatically say that when we hit 4.5 rather than 4.4 we take some action.

COMMISSIONER GIBSON: This would only moderately raise your cost of money because your cost is an average of all kinds of money you have got?

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COMMISSIONER GIBSON: I am talking about your new lending activities and your renewals.

MR. SAUNDERS: Yes. We would like to co-operate and we would feel there are certain things we could do if the signs were clear that such action is desirable in the national interest or in our own interest.

COMMISSIONER GIBSON: What I am getting at is that the signs are not always clear, and it is perhaps hoping for too much that they usually will be very clear. Late in the day, yes.

MR. SAUNDERS: We would not be the first people who would be able to interpret these signs. Somewhere along the line we interpret them when they get into focus where our industry sees these signs.

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MR. SAUNDERS: There may be certain things like inventories which might get too high. There may be over production of certain goods and at this point credit becomes less sound because pressure is on to move merchandise by means of artificial props on credit. We naturally are not in favour of that because we feel that that type of credit granting is not the best type. This is an area where we can, through our credit department, exercise certain control, and we have standards that we set up from time to time.

COMMISSIONER GIBSON: So you would be pretty sensitive to building up an inventory, and this is one of the major signs from your point of view?

MR. SAUNDERS: Yes.

COMMISSIONER LEMAN: In this process of analysing the effectiveness of changing monetary conditions you see there is a lot of manoeuvering that can go on. Mr. Gibson was just referring to the situation where short term rates had gone up a little bit but the rest of the market had not been affected yet too much. Do you regard your capital structure as fairly rigid? Do you like to have a certain proportion of 60-day money; 90 and 180-day money and always roughly in those proportions, or would one of your first reactions be to start shifting your capital structure to take advantage of these differences that have come about?

MR. SAUNDERS: We have certain ratios that we try to maintain, but we change our ratios from time

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MR. SAUNDERS: We have certain ratios that we try to maintain, but we change our ratios from time

to time. Of course we have certain inherent ratios which are laid down by our loan and trust agreements, and the various other agreements. For instance, we cannot have a greater percentage on our total in so-called long term funds than we have in short term funds, so there is one restriction which is rigid. Although, of course, like everything else it can be changed, but it would be very difficult to obtain approval for that change. Let us say within the range of short term funds we would try to do some adjusting, but that would depend on our interpretation at that particular time. I would say that it would be looked at very carefully. There may be some adjustments to take advantage of, let us say, a one year rate at a time when it looked as though a year from then that rate might look attractive. Also, if we are well within our limitations of short term to long term we may go out and raise some more long term money. These are just analyses of our own mix of funds which we do make from time to time.

COMMISSIONER LEMAN: We are talking a little bit in generalities here, Mr. Saunders. Would it be possible for you to give us later a bit of a paper to supplement your brief in explanation of how these processes might work in the case of a finance company like your own? You see, our problem in asking ourselves, how effective is monetary policy is not so much what it could do in theory as much as what does happen in practice. What are the obstacles that prevent an

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action starting at point zero from pervading down after all the manoeuvering that takes place in between? Certainly at some point the effect is felt, but how slow is it and what are the rigidities that prevent the action from having a rapid enough effect and the right amount of effect? What you might do with your borrowed funds is one of those processes through which in part monetary policy might be frustrated, you see.

MR. SAUNDERS: Well, we certainly can try to develop some figures for you, and you will be able to draw your own conclusions from them. However, I think that it is a fact that whereas finance companies are very sensitive to monetary policy and are sensitive in various ways, they will not react at exactly the same period as, let us say, another industry might, and it is obviously because of the fact that they are different industries. We also feel that we are not as well informed about monetary policy and we would like to reduce the violence of our own reaction to certain monetary policies by smoothing it out. This we feel would be in the best interests of our company, our customers as well as the general economy. Reactions occasionally have been quite violent. I think we are going to send you some of our circular letters that have gone out giving the reaction that we have taken. We would like to advise in advance and say these are things we would like branch managers to keep in mind; credit seems to be tightening and we should tighten up gradually instead

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of tightening up harshly.

I remember one particular incident where this advice went out by telegram rather than by letter and they reacted very quickly. I do not think it is good to have to react quickly. Perhaps we are all learning from this and can anticipate certain things a little more quickly.

COMMISSIONER LEMAN: I believe the economists would expect you to protect yourself at all times. What we would like to see is what people do in fact, not how people tend to act if there are a lot of conferences between the government authorities in Ottawa and the people so that there would be a unanimous opinion as to what could be done. That is a little unrealistic. What we are trying to find out is how people react to certain specific conditions, always in the back of their minds that they want to protect their businesses as best they can and try to circumvent the manoeuvering. There is nothing wrong with a little manoeuvering in view of competition in this industry, but we cannot expect people to do things without looking over their shoulders at what the other fellow is doing.

MR. SAUNDERS: You have to be competitive because tight money periods are followed by easy money periods and you cannot ignore the demands of your customers or the requirements of the people who do business with you. However, you can smooth it out. We have tried at different times to do that,

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and if we had a good enough crystal ball we could anticipate some of these things. We are trying to do more now than ever before, for instance in watching things like short term interest. We can give you the experience that we have had and you can draw your own conclusions.

THE CHAIRMAN: Thank you very much Mr. Saunders. We appreciate the brief that you have presented and I think I can speak for all the members of this Commission in saying that we feel this discussion has been very useful.

MR. SAUNDERS: Thank you.

THE CHAIRMAN: We shall adjourn until two o'clock this afternoon at which time we shall consider the brief of the Industrial Acceptance Corporation.

--- Luncheon Adjournment.

--- Upon resuming at 2.10 P.M.

SUBMISSION OF INDUSTRIAL
ACCEPTANCE CORPORATION LIMITED

APPEARANCES

J. H. Ranahan	- President
J. B. Pennefather	- Executive Vice-President
K. J. Doig	- Vice-President Finance
K. H. MacDonald	- Vice-President and General Sales Manager
K. G. Inch	- Manager Market Research and Statistics

THE CHAIRMAN: Call the meeting to order. Industrial Acceptance Corporation Limited. Mr. Ranahan, are you presenting the brief yourself?

MR. RANAHAN: Yes sir. May I proceed?

THE CHAIRMAN: Yes.

MR. RANAHAN: I have an opening statement I would like to make, Mr. Chairman.

Mr. Chairman and members of the Commission my name is J. H. Ranahan. I am president of Industrial Acceptance Corporation Limited and with me are John B. Pennefather, executive vice-president of the company, Mr. K. J. Doig, vice-president Finance of the company, Mr. K. H. MacDodald, vice-president and general sales manager, our vice-president in charge of developing the company's business and K. J. Inch, manager market research and statistics. It may be that in the course of any discussion to follow I may have to call on them for help.

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Mr. Chairman, I am going to try and not take this Commission over the same ground twice. Therefore, it is not my intention, unless you wish me to do so, to read the summary contained in the brief, but rather in this, my opening statement, I would like to bring some of the main topics into focus.

I was first employed by Industrial Acceptance Corporation Limited in 1927, at a time when it was a comparatively small business having a single office in Canada at Walkerville in southwestern Ontario, the area in which I had been brought up. It was then a wholly-owned subsidiary of an American company and opened its first branch in Canada later in the same year in Montreal, where I was sent.

A few years later, in 1930, the shares of the American parent company were purchased by a group of Canadians and it became a publicly owned Canadian company. Some of the Canadians associated in the early stages w ith the company were Mr. Russell D. Bell of Montreal, Mr. John McColl, known for his association with the McColl-Frontenac Oil Company, Mr. Paul F. Sise, president of Northern Electric Company and Mr. Norman McLarty, at one time secretary of State for Canada. At that time, the assets of the company were slightly in excess of $6,000,000. At the end of 1961 the assets were $606,590,513.

Industrial Acceptance Corporation Limited, or I.A.C. as it is often known, is now a widely held independent company with 76 per cent of its shares

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Industrial Acceptance Corporation Limited, [illegible]

being held in Canada. By independent company I mean that there is no interlocking relationship with any other financial group, manufacturer or distributing organization other than those that would arise in the ordinary course of business.

The head office of our company is in Toronto and its executive offices are here in the Town of Mount Royal. It has in its employ and that of its subsidiaries almost 3,000 people.

I.A.C. is a sales finance company. In fact, it is the largest sales finance company in Canada.

As there is frequently confusion in the minds of the public concerning the role of a sales finance company, it would perhaps be of some assistance if I tried to define that role.

The essence of the business of a sales finance company is the discounting and purchasing of the commercial paper of manufacturers and dealers in durable goods at both wholesale and retail levels. The largest area in which my company operates is in the field of motor vehicles, but we have a large business also in all other kinds of durable goods such as home furnishings, electrical appliances, et cetera and almost every conceivable type of industrial machinery and commercial equipment. Business under these latter categories has been steadily growing in relationship to the total. For convenience, I will refer briefly to the manner of doing business with an automobile dealer, but this explanation can apply

equally to our manner of doing business with any other dealer in durable goods.

The ordinary automobile dealer has not available the funds to finance his inventory of cars. When the manufacturer of the automobiles, for example, wishes to make delivery to a dealer, he enters into a contract of sale on a title-retaining basis and discounts these contracts with a sales finance company, so that the manufacturer receives cash payment for all his motor vehicle sales.

The dealer pays us when he arranges for a retail sale and is charged for the exact period during which he held each of the cars in his inventory. This is a specialized type of financing which only sales finance companies long experienced in the trade can carry on successfully. It requires intimate association with the automobile dealer, periodic checks on his inventory, an accurate appraisal of the potential sales volume of which the dealer is capable, and many other like factors which require the use of a highly trained staff of specialists.

In the process of retail selling, the dealer or merchant will make some sales on a time payment basis. At this point I would like to interject that the plans of financing as provided by I.A.C. and other sales finance companies are designed to put time payment facilities right in the dealer's store, thus enabling him to compete with those whose volume and resources permit having their own credit facilities.

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The dealer has the purchaser sign a conditional sale contract, under which the dealer retains title until payment of the purchase price, and then discounts the contract with us.

At the time of s ale or even prior thereto, we provide the facilities for obtaining accurate and fast credit information on the proposed purchaser.

We provide the dealer with contract forms that we strive to keep up-dated to comply with the changes in provincial laws from time to time and to make these forms easier to use and easier to read.

After a contract has been purchased by us, the highly specialized business of accounting for and receiving the monthly instalments is entrusted to specially trained staff.

To facilitate working closely with the dealer and to provide the very best service to his customers in the handling of these receivables, we maintain over 140 branches in Canada.

It will be seen that in our business we do not deal with the ultimate consumer, other than in the process of receiving payments from him on paper we have discounted for dealers. We do not lend money to the ultimate consumer. We have a subsidiary company which is in the consumer loan business, but the primary

purpose of this submission is to deal with the area of sales financing.

In addition to the discounting of paper covering wholesale and retail sales of durable goods, we also operate a capital funds division. This division carries out an important function and helps to service a field where loans of a capital nature -- of medium term -- can contribute to the greater efficiency, productivity and expansion of Canadian business. Usually this type of transaction falls between the commercial revolving loan of, say, a chartered bank and longer term or permanent capital financing of larger amounts such as might be available through investment dealer sources.

You will see by our brief that we also operate a subsidiary company in the casualty insurance field and that we have a 50 per cent interest in an affiliated company engaged in commercial financing and factoring, et cetera.

The funds for the carrying-on of our business come from varied sources. Taken from our consolidated statement of December 31, 1961, the equity of the shareholders in our company was $96,241,456. We had at the same date long term debt issues totally $189,989,583 consisting of $80,883,000 of unsecured debentures and $109,106,583 of notes secured by pledge of commercial paper discounted by us.

We also borrow substantially on a short term basis in the open market for periods varying between thirty days and one year. The amount of these borrowings

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varies from time to time, but at the last year end were $145,031,954. In addition, we have substantial loans from the chartered banks on a demand basis which were $56,100,000 at December 31.

There are also some medium term borrowings by us, that is, for periods of between one and eight years, for which secured notes are also issued. This is a comparatively small proportion of our capital but, in itself, is fairly substantial. At the last year end medium term notes outstanding were $35,738,000.

It will be seen that the funds employed by us, containing as they do a mix of long-dated maturities with a sound proportion of shorter maturities, permits of a flexibility which fits admirably into our role, which is to supply funds and services to Canadian business for medium terms, principally on an instalment basis.

The independent sales finance company, as a user and supplier of funds of the kinds mentioned, has a clearly defined role in the economic life of Canada as the logical purveyor of the services it renders.

The sales finance industry was born out of a strong demand for the kind of service it provides. Not too long ago none of the then existing financial institutions were willing to r espond to the demand of the retail merchant in durable goods for financial resources to carry inventories and credit facilities for extending to the consumer sound plans of deferred payments.

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As a result of this demand, the sales finance industry was born and developed along very highly specialized lines. The services it supplies were made available to the comparatively small merchant right in his place of business and allowed him to compete on even terms with the larger merchant who was able to rely on his own financial resources.

It is of the essence of the sale finance business that there be a constant personal contact with the dealer and close working relations with him. Throughout the entire life of a transaction specially trained staffs are needed to deal exclusively with business of this particular type. Such specially trained staffs must, among other things, have a working knowledge of the laws relating to conditional sale contracts, a sound knowledge of each dealer's merchandising policies and individual requirements relating to insurance and like matters. Intimate association with local conditions and training in the highly specialized technique of instalment collections and other incidents peculiar to this business are required.

Looking into the future it would seem that if I have accurately portrayed the worthiness of the sales finance industry to businesses and consumers throughout Canada, then I am confident that it has established a strong foundation from which this industry can continue to grow and expand its usefulness throughout the economy of Canada. That given the freedom of enterprise, it will contribute along with many other

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worthwhile institutions to the sound growth of our country.

In our brief we have drawn to the attention of this Commission certain competitive factors affecting our industry. We are anxious not to leave the impression with the Commission that we have brought these matters into focus in the hope of creating any haven for ourselves competitively. On the contrary, we have a strong conviction that fair and healthy competition helps to develop good people and it is only with a strong well developed organization that we can hope to prosper regardless of the circumstances. We do feel that there are certain implications involved in the competitive factors we have drawn to your attention. It was simply our objective to draw them to your attention so that throughout your hearing they might thus be related to other matters that will be put before you.

Until well into the post-war period our current and varying needs for funds from day to day were serviced entirely by the chartered banks. However, bank restrictions imposed on our industry early in 1951 made it apparent that reliance entirely on them could be detrimental to our interests as well as to the interests of those we serve. We were particularly apprehensive at that time because of the different position of captive finance companies which a re wholly-owned subsidiaries of manufacturers of automobiles or other durable goods and subsidiaries of large foreign-owned companies whose parent companies

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might have been relied upon to compensate for the loss of bank credit.

After a prolonged study of our position and after discussion with monetary authorities in Ottawa, we decided to venture into the short term money field in Canada.

Succeeding restrictions of bank credit lines made it imperative that we employ a substantial part of our resources as reserves in the form of investments in securities with early maturities. Such a move was necessary to provide for maturities of portions of our own debt and to take care of fluctuations in day-to-day requirements. At the past year end investments for such purposes totalled $55,153,822.

A further impelling force to enlarge upon our borrowings from the short term money market and to place increasing reliance on our reserves as just outlined (aside from cost considerations), has been the fact that within the last few years the chartered banks have aggressively invaded the field of consumer credit. The chartered banks which used to be thought of in terms of supplying funds as wholesalers have now become actively interested in what might be termed the retail field and therefore have become our serious competitors. Accordingly, in the interest of our stockholders, it seemed prudent to place less reliance on this supplier of wholesale funds and lean more heavily on the resources I have just described.

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raised certain other questions in connection with our relations with chartered banks. We have asked whether these chartered banks, who are now our competitors in the sales finance business, should be used as the instrument of monetary authorities in restraining credit throughout the sales finance industry. Also raised is the question of whether we should not be able to d eal freely with each of the chartered banks in arranging banking facilities upon the basis of arrangements founded on our business integrity and financial resources, rather than having uniform policies laid down in unison by all of the chartered banks.

I should say immediately that our relations with the chartered banks have been most friendly and it is our hope that we may continue to employ their resources to our mutual profit for many years to come. Our differences are, we think, honest differences of opinion concerning the basic philosophy of the chartered banks in relation to their dealings with us.

Although I have not touched upon some of the other principal factors of our brief such as the Industrial Development Bank, Finance Charge Disclosure et cetera in this opening statement, it should not be a ssumed that we do not attach equal weight to each of the fields thatwe have covered and we will welcome as full a d iscussion on one as on the other.

raised certain other questions in connection with our relations with chartered banks. We have asked whether these chartered banks, who are now our competitors in the sales finance business, should be used as the instrument of monetary authorities in restraining credit throughout the sales finance industry. Also raised is the question of whether we should not be able to d eal freely with each of the

the basis of arrangements founded on our business integrity and financial resources, rather than having uniform policies laid down in unison by all of the chartered banks.

I should say immediately that our relations with the chartered banks have been most friendly and it is our hope that we may continue to employ their resources to our mutual profit for many years to come. Our differences are, we think, honest differences of opinion concerning the basic philosophy of the chartered banks in relation to their dealings with us.

Although I have not touched upon some of the other principal factoms of our brief such as the

et cetera in this opening statement, it should not be assumed that we do not attach equal weight to each of the fields thatwe have covered and we will welcome as full a d iscussion on one as on the other.

THE CHAIRMAN: Thank you very much, Mr. Ranahan.

COMMISSIONER LEMAN: Mr. Ranahan, your brief contains quite a wealth of information here which I am sure will be very useful to the Commission. I do not think we can hope this afternoon in this period to discuss all aspects of it in detail, so I would like to ask you a few questions that will not necessarily follow the logical presentation of your material, and I hope you do not mind if we roam a little from one subject to the other.

In the summary of your brief you suggest at the beginning a classification of financial institutions, and I am not too clear of exactly what the consequences of this classification are in your mind. Are you suggesting that the fields of operation of the three or four particular types of institution you suggest should be closed or not overlapped at all? What is it that you suggest?

MR. RANAHAN: I think one suggestion we had in mind in that area is of a statistical nature, and that the various components that make up the total of consumer credit as distinct from the over-all total of instalment credit may be more clearly set forth and be more useful to ourselves and our industry and others from time to time, and in our brief we have laid out a suggested breakdown of the various components and how they might be properly described. I think maybe that is what I would take you may have in mind at that point.

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COMMISSIONER LEMAN: Well, are you looking at this from the competitive standpoint, or from what point of view do you suggest such a classification? What would be its consequences? There follows from that certain other suggestions you make: For instance, when referring to the chartered banks you describe certain things they have done which you don't like, etc. Would you like all the distinctions between the various kinds of institutions to be by statute limited to extremely clear lines of activity without any chance of overlapping, despite the fact that in certain cases an institution through its development might become more efficient in a certain field than another one?

MR. RANAHAN: Well, as I mentioned in my opening statement, Mr. Leman, we were hardly hoping to surround ourselves with any particular protection competitively, and it really was not with that view in mind, except to the extent some of these things may not be in the national interest.

COMMISSIONER LEMAN: For instance, I will refer specifically to your statement that it is logical that banks should confine themselves to their short-term loans and commercial borrowers. Part ofthat, as I understand it, comes from the fact that you feel that they get most of their money from demand loans. Are you implying you are really worried about the liquidity position of the banking system?

MR. RANAHAN: We are wondering if that is not an area that this Commission would like to take a look

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MR. HANAHAN: [illegible]

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at. Presumably at some date in the past when the present reserves were established for the chartered banks the figure was set based on some objective of liquidity when 8 per cent was set as the primary reserve, and at some later date 15 per cent both primary and secondary. At that time the banks enjoyed a certain liquidity which may be tested by the rate of pay-down of their loan receivables. The test today of the pay-down of their loan receivables might disclose a different liquidity position than existed when 8 per cent was set and, if so, perhaps that is something they can take into account in their own recommendations. We do not have access to any figures that permit us to say that is so, but we do raise the question that if 8 per cent was the logical figure at some date in the past, is it still relatively as good a figure when such a higher proportion of bank loan receivables are of a longer dated maturity.

COMMISSIONER LEMAN: You have dealt quite a bit on the development of the last few years. This morning another finance company dealt on the same point quite a bit , and this is this earlier reliance on bank credit for finance companies which gradually pushed them into the short-term money market. Now this has been done, how do you regard this development -- as a desirable one or undesirable one?

MR. RANAHAN: I am not sure if I follow you there, Mr. Leman.

COMMISSIONER LEMAN: Well, the result of what has taken place has caused your company as well as other

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MR. RANAHAN: I am not sure if I follow you.

COMMISSIONER LEMAN: Well, the result of what has taken place has caused your company as well as other

finance companies to go into the market and get their money directly from the public instead of relying so much on the bank. Do you regard this as a good development , or do you feel it has been undesirable?

MR. RANAHAN: Out of every bad comes a little bit of good, and actually there has been some good develop out of that. Going back to 1951 I think our company was quite prominent in developing the short-term money market, and I think that has been a good thing in the national interest and a good thing for our company. Probably it might not have been done at that time; although the logic of it may have brought it about later, it might not have been done at that time had we not been subject to cutbacks in our bank credit. That did not relieve us of a very serious problem at the moment. But, over the years the development of a short-term market has been a good thing for our company and our industry and, I think, for Canada.

COMMISSIONER LEMAN: In effect, you are glad of the result that has been achieved although you deplore some of the causes of it?

MR. RANAHAN: Yes.

COMMISSIONER LEMAN: The fact you have gone into the market has caused you to somewhat change you capital structure: How do you now regard this capital structure again from the point of view of efficiency and from the point of view of enabling you to give the best service to your customers? Do you regard it as a structure which is quite flexible and which you

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can manage easily, or do you find it has some rigidities that are difficult to get out of?

MR. RANAHAN: We think our capital structure is very appropriate to the type of business in which we are engaged, and it is in that same area we try to give some emphasis in our brief, that having a high percentage of equity to total debt and having a high percentage of long-term debt to total debt, we are ideally situated to deal in long-term receivables, or what we call medium-term receivables, but they are long-term, maybe, in comparison with the demand type of receivable. We believe that fits this industry to service the highly specialized field in a much more flexible way than institutions that have to employ mostly demand or very short-term money. The pay-down of receivables for 2, 3 or more years in original maturity is a fairly slow pay-down, and to properly service that type of business we think you must have a good percentage of long-term debt and a high percentage of equity, and our industry has that.

COMMISSIONER LEMAN: But in talking about flexibility I would like to go just a little further. Do you find it is easy for a company such as yours, depending on the circumstances of the moment, and the availability of credit, the changes in rates from time to time between short, medium and long term money etc., do you find yourself able to do some shifts that will accommodate your requirements from time to time, or are there certain rigidities about it -- accepted ratios and that sort of thing that you have

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to abide by?

MR. RANAHAN: No, the only rigidity would pertain to long-term debt, that having put some long-term debt on your books under certain conditions you are perhaps locked in with it, but there is flexibility in your over-all average in that in most conditions you can bring about a reasonable mixture of other types of money with the more rigid longer-term debt. With a good piece of equity and a good piece of long-term debt we feel we can safely and soundly employ a substantial amount of short-term money and bank demand credit. We would not feel it was prudent unless we had that base that I mentioned.

COMMISSIONER LEMAN: In summary, would you say in view of the developments of the last few years, especially the development of the money market in Canada, that in your experience you are able at different times to get exactly the kind of money you want at that time in the amounts you want?

MR. RANAHAN: I would not say that our ability to get the type of money we want when we want it is any greater than the ability of other institutions or commercial enterprises to get money in the same market under the same conditions. I do not think our company or our industry enjoys any particular benefit under certain conditions to draw money to it except to the extent its credit rating might attract money in one direction as compared to the money going in another. We do not seem to enjoy any more freedom in getting money under better circumstances than others.

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COMMISSIONER LEMAN: I was not suggesting it would be easier for you than for anyone else. I am asking if it has been satisfactory in your experience. Your brief suggests in spots there are quite some limits on the amounts and various kinds of funds you can get at certain times. Another finance company suggested this morning if they are willing to pay the price they can get pretty well anything they want. Do you take the same stand on this, or a different stand?

MR. RANAHAN: We feel there are limits. Certainly, I think that you are limited to keep your debt in sound condition, and during periods when money is harder to get than others I think there are some limits, and certainly if the limitations are equated with the cost factors and with an eye to the future there is a very definite limitation as to how much money you can take into your inventory under certain conditions.

COMMISSIONER LEMAN: The effect of that is to reduce your volume -- or, what is the effect?

MR. RANAHAN: The effect of that would be to reduce our volume.

COMMISSIONER GIBSON: On this same subject, Mr. Ranahan, your company has had quite an active part in the development of the short-term money market in this country, and you have had a pretty active part in the whole money market. I think the Commission, following on what you have said, would be very interested in your views as to how this market works -- to what

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degree it has improved and how it could be improved further, as to whether you think underwriting practices are effective and satisfactory? Would you care to make any comments on the working of the general money and capital market?

MR. RANAHAN: We have mentioned in our brief, Mr. Gibson, that we question whether the chartered banks should be used as an instrument to restrain credit in the sales finance industry when they are at the same time a competitor in that industry.

COMMISSIONER GIBSON: Yes, I understand that point. I was really referring to the money market itself.

MR. RANAHAN: Well, going beyond that part of our money that comes from the banks, into the other segments of the market, our own company's experience has been quite satisfactory in the machinery that seems to be available to us. From time to time we have felt maybe there is not the same breadth or depth to the Canadian market as there is in more mature market places such as New York and maybe even the old country from time to time. But we have no suggestion along that line, as our own experience has been very favourable with the machinery that is available to us. There have been periods when we have had to restrain ourselves and we have been limited, or felt we have been, as to the supply we could get, but we have had no quarrel with the avenues available to us or any suggestion along that line.

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COMMISSIONER GIBSON: Have you found any part

of the capital market broader and more satisfactory than other parts?

MR. RANAHAN: Yes, we have. In our own debt structure we have found maybe a little more flexibility in the debenture market.

COMMISSIONER GIBSON: That is long-term?

MR. RANAHAN: Long-term, as compared maybe to our long-term secured notes, the difference being, so we are told by our fiscal agents, that in the case of the long-term debentures they are sold very widely and to individuals, and may be sold in varying amounts -- small or large amounts -- whereas our secured term note type of debt, the long-term end of it, has been largely in an institutional market, and there may be times when that might not be as open as others.

COMMISSIONER MACKINTOSH: Why would that be? Why would the institution prefer that?

MR. RANAHAN: I suppose there might be periods when they have other commitments for funds or their demands might be very strong in certain directions, and there might also be periods in our smaller market here in Canada when institutions have what they may think is a high enough percentage of a particular industry.

COMMISSIONER MACKINTOSH: My question was, why would they prefer the secured note to the debenture, because you say the individual has a preference the other way.

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to the notes being considered to have a market place among the institutions.

COMMISSIONER BROWN: Isn't this a matter of rates -- in your secured note you get a better rate?

MR. RANAHAN: That is right.

COMMISSIONER BROWN: And the debenture, you have to pay a higher rate and it is the higher rate that is attractive to the individual.

MR. RANAHAN: Yes, that is true.

COMMISSIONER BROWN: The secured note is a higher quality instrument and commands a better place in the market.

MR. RANAHAN: That is true.

COMMISSIONER BROWN: May I ask one question before we leave this matter of the banks. You, like the banks, are in business to try and put your assets to work in the best way that you can and to make the most amount of income for your shareholders. Are you suggesting the banks should vacate certain portions of their market and confine themselves to the short-term market? How do you suggest they employ their funds?

MR. RANAHAN: Actually, we didn't intend to make that as a suggestion in our brief, Mr. Brown, but rather to raise the question if that shift in employment of bank funds was having any effect on liquidity and, if so, then is the same reserve requirement as valid today as it was when the present reserve was set.

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COMMISSIONER BROWN: Speaking from memory, it seems to me in the period of which you are talking general loans of the banks, which are their short-term loans that you are talking about, were usually less than demand deposits, and at the moment the general loans are more than demand deposits. In other words, a lot of their savings deposits which formerly fell into the category of being invested in securities and bonds are now in the loan category. So, at first glance it would appear they have now greater liquidity than they had before. This is speaking from memory and I would have to see the statistics. I wondered if you had any figures to back up your suggestion that it has worked the other way.

MR. RANAHAN: I haven't a figure quickly to discuss that.

COMMISSIONER BROWN: That is all right.

MR. RANAHAN: Except I might make this one observation, that in practice, so I believe, savings deposits are of a very short-term nature. I think that in the pass book there is a 30-day notice, or two weeks notice, or something provided for, but that in practice if we write a cheque this afternoon on our savings account we expect it to be honoured.

COMMISSIONER BROWN: But you were talking about historical changes.

MR. RANAHAN: Yes.

COMMISSIONER BROWN: My memory is that the historical analogy is the reverse of your suggestion. I was wondering if you had figures to show otherwise.

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We can get the figures afterwards.

MR. RANAHAN: No, I haven't it offhand.

COMMISSIONER MACKINTOSH: If I could interject here, you can make a statement in practice in two quite different ways: If I went to draw on my savings account, the bank rarely asks me to wait for 30 days.

On the other hand, a very solid percentage of banks savings deposits do not vary. In other words, while the individual account in practice is a demand account, a very large proportion of savings accounts are very firmly placed and are not subject to draft below a high percentage. We are getting suggestions quite at variance to yours. Namely, why do the banks with these savings deposits which, in fact, are long term; why don't they get into long term financing of various sorts, mortgages and all sorts of things.

COMMISSIONER BROWN: I think that really depends on whether someone wants the banks to vacate one of their fields.

MR. RANAHAN: There may not be very many in a dual position as we are. We are a very heavy commercial borrower. I suppose there have been times when we would have liked to see the banks with a strong liquid position accommodate our borrowing.

THE CHAIRMAN: Is there any question about the bank's strong liquid position?

COMMISSIONER GIBSON: Just as a factual matter I would like to add that the 8 per cent liquidity requirement does not reduce the liquidity of the banks. It means that 8 per cent of their cash cannot be used under any circumstances on the average during the month. The higher you raise that reserve from one point of view, the more you reduce liquidity rather than increase it. It is

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an instrument of monetary control rather than a liquidity factor.

THE CHAIRMAN: Are we concerned here with the liquidity of banks? Are we not concerned with your position; the liquidity of your type of business and what restrictions are there; what sort of investments are there that you are endeavouring to hold one way or another? I understood this morning that there is a statutory provision that would prevent you from opening a deposit account. The deposit business is not open to you, is that correct?

MR. RANAHAN: Mr. Chairman, I do not understand it quite that way. I believe that under the Companies Act that really we can take deposits, but if in taking them we were deemed to be in the banking business then we would be contravening the Companies Act.

THE CHAIRMAN: I have not looked up this particular section of the act and am notfamiliar with the exact wording of it, but I gathered this morning there was some provision that restricted institutions such as yours from getting into the deposit business. Apparently that might not be just correct from what you say. It may be a little different than that.

MR. RANAHAN: My recollection from what we have been told is that we would have the right to take deposits, but in so doing we may be deemed to be in the banking business and then we would be contravening the Companies Act.

THE CHAIRMAN: That is about the only

an instrument of monetary control rather than a liquidity factor.

THE CHAIRMAN: Are we concerned here with the liquidity of banks? Are we not concerned with your position; the liquidity of your type of business and what restrictions are there; what sort of investments are there that you are endeavouring to hold one way or another? I understood this morning that there is a statutory provision that would prevent you from opening a deposit account. The deposit business is not open to you, is that correct?

MR. RANAHAN: Mr. Chairman, I do not understand it quite that way. I believe that under the Companies Act that really we can take deposits, but if in taking them we were deemed to be in the banking business then we would be contravening the Companies Act.

THE CHAIRMAN: I have not looked up this particular section of the act and am notfamiliar with the exact wording of it, but I gathered this morning there was some provision that restricted institutions such as yours from getting into the deposit business. Apparently that might not be just correct from what you say. It may be a little different than that.

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THE CHAIRMAN: That is about the only

statutory restriction to your portfolio position, is it not?

MR. RANAHAN: I believe so.

THE CHAIRMAN: So that you could arrange your portfolios pretty well as you thought prudent?

MR. RANAHAN: I think that is right.

THE CHAIRMAN: There is no definite statutory reserve requirement of any kind.

MR. RANAHAN: No, except rightly or wrongly we have felt we served the particular field in which we are engaged better by employing not the demand type of money which deposit money implies, but rather debt with a specific maturity for which we can plan, with a high percentage of that debt stretched out well into the future. Our business judgment might change.

THE CHAIRMAN: Yes, but it all depends upon your business judgment. You are free to exercise your own business judgment without any statutory restriction?

MR. RANAHAN: Yes.

THE CHAIRMAN: With the possible exception of deposit accounts?

MR. RANAHAN: That is right.

THE CHAIRMAN: You are much freer in that respect than the banks as to their general portfolio. They have got certain reserve restrictions or provisions which they must comply with. Certainly all their assets are tied up in securities which are non-productive of revenue in any event.

MR. RANAHAN: Or at varying rates of

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revenue.

COMMISSIONER BROWN: I wonder, Mr. Chairman, if we could go back and follow along Mr. Leman's line of discussion again, and explore your reaction in regard to what happens when monetary policy starts to tighten things up.

MR. RANAHAN: When the evidence is clear that money is getting more expensive and in the same breath you can usually say getting more scarce we take very definite steps to cut our suit according to the cloth we think we are going to have. We do not think we can afford to overstock in high priced inventory which is a matter of business judgment, probably. We take very dèfinite steps to try and adjust our position to what we think the market or money may be in months to come.

COMMISSIONER BROWN: This might be a direct leading question, but do you reach out and try to get as much of the available money that you can if you foresee an increased cost?

MR. RANAHAN: If we can foresee -- if we can -- far enough ahead to lay in some long term money at a rate that may be lower today than a year from today, we would of course pursue that course. That is a matter of judgment that we are trying to exercise all the time. The times when we may be able to lay in some money at a lower rate than what we may get it for at some other date are few. In respect to rushing out trying to put in big money in the midst of a rapid

change in the money market, there never seems to be any opportunity in that direction.

In the short term money market the lenders, and this applies to the long term market as well, are as astute as the borrowers, we find, and they want to lend short if money rates are likely to go up. If money rates are likely to go up, we would like to borrow long, so there is an equalizing factor, and we really cannot very well go out and lay in a big inventory of funds. So far we have not been able to do that.

COMMISSIONER LEMAN: Mr. Ranahan, a few minutes ago when we were talking about this same thing you said your industry was very sensitive to monetary conditions. I should like to get a more concrete view of this sensitivity. Let us make certain assumptions, if you will. Let us assume that over a period of a year that your average cost of money spread over your structure would be about one per cent higher than the year before. What would be the effect of this on the terms for a two year consumer loan for durable goods? What would you have to do to that loan to compensate for that one per cent increase in interest rates?

MR. RANAHAN: Mr. Leman, if I understand your question it is, if our money costs go up, say, on the average of one per cent?

COMMISSIONER LEMAN: Yes.

MR. RANAHAN: Do we, and if so, how do we recover it?

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COMMISSIONER LEMAN: Yes.

MR. RANAHAN: Do we, and if so, how do we

COMMISSIONER LEMAN: Yes, what happens to your typical loan for consumer durable goods, for instance?

MR. RANAHAN: Well, there may be two factors involved there. As money costs rise and if that is a forerunner, or has been accompanied by a shortage in the overall supply, we do take steps, as I mentioned, to cut our doth accordingly. In other words, we do not feel we can keep on doing that great rate of business that we forecasted as we might be doing at the moment. Now, as to recovering some of the cost, as the higher money costs weigh heavily on our overall costs of doing business we do try to make some adjustments in our balances. These adjustments may take different forms, but they are passed along to some of the users in certain classes of businesses, and perhaps in all classes of businesses. In respect of any receivables outstanding on our books of a retail nature, 12, 18, 24, 30 months, nothing can be done about the income in respect to those receivables. The only adjustment that you can make in your charges would pertain to new receivables that you put on your books from a certain day forward. From time to time in the past as there have been substantial rises in the cost of money there have had to be adjustments in the charges we make for acquiring those retail receivables, or in the charges that we make for financing inventories.

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MR. PANAHAN: Well, there may be two factors involved there. As money costs rise and if that is a forerunner, or has been accompanied by a shortage in the overall supply, we do take steps, as I mentioned, to cut our cloth accordingly. In other words, we do not feel we can keep on doing that great rate of business that we forecasted as we might be doing at the moment. Now, as to recovering some of the costs, as the higher money costs weigh heavily on our overall costs of doing business we do try to make some adjustments in our charges. These adjustments may take different forms, but they are passed along to some of the users in certain classes of businesses, and perhaps in all classes of businesses. In respect of any receivables outstanding on our books of a retail nature, 12, 18, 24, 30 months, nothing can be done about the income in respect to those receivables. The only adjustment that you can make in your charges would pertain to new receivables that you put on your books from a certain day forward. From time to time in the past as there have been substantial rises in the cost of money there have had to be adjustments in the charges we make for acquiring these retail receivables, or in the charges that we make for financing inventories.

in your brief you hint without saying so absolutely and directly that this consumer loan business is less sensitive to changes in monetary conditions than for instance commercial loans. I think at page 49 toward the bottom there you imply this. You say at that point:

> "In comparison to the amount of retail consumer instalment paper, cash instalment loans, wholesale finance paper and industrial retail paper outstanding, our leasing capital loan services and factoring activities still represent a small share of our total earning assets. These lines of business appeared interesting to us some time ago, but the generally restrictive nature of monetary policy during much of the Fifties was a serious inhibiting factor."

You seem to contrast that type of business to the consumer loan business implying that the consumer loan business is less sensitive to interest rate changes.

What I would like to get at is this. Is it volume that is changed? If we talk about one per cent, or a 2 per cent increase, in interest rates across the board, does it affect your volume mostly, or do you pass it on in some way?

MR. RANAHAN: If I may answer that question,

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"In comparison to the amount of retail consumer instalment paper, cash instalment loans, wholesale finance paper and industrial retail paper outstanding, our leasing capital loan services are [illegible] a small [illegible] of our total earning assets. These lines of business [illegible] interesting to us some time ago, but the generally restrictive nature of monetary policy during much of the [illegible] was a serious inhibiting factor."

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What I would like to get at is [illegible] Is it volume that is changed? If we fall about one per cent, or 2 per cent increase, [illegible] rates increase [illegible], does it affect your volume [illegible]

[illegible]

first of all in respect to the paragraph you were just reading from, our reference there to leasing, capital loan services and factoring, what we mean there, and maybe it is not as well written as it should be, is that some time ago we had in mind engaging in those fields of business as new lines of endeavour. However, because of succeeding tight money periods during the mid fifties, and even later, we had to postpone entering into these new fields. Actually we were not in the leasing and factoring business five years ago. We tried to bring that point out in paragraph 61 at page 49.

COMMISSIONER LEMAN: All right, let us suppose you did not say so in your brief. I am asking you now, are those fields much more sensitive to interest rate changes than the consumer loan field?

MR. RANAHAN: First of all, even in the consumer loan field, all sales finance businesses are doing business through the dealer. If we get into a period where we have to increase our charges to the dealer for the purposes of financing his inventory, or rather charges for acquiring his retail paper, probably simultaneously the banks have to increase that dealers borrowing rates from the bank and that dealer may have to pass along some of this higher cost of doing business, or he may try, depending upon his competitive conditions, to pass it on to the public. If it costs more to finance his inventory, whether it is through the bank or

through a sales finance company, theoretically he will at least try to recover the higher cost of financing his inventory in his retail sales prices. I think from actual experience, while you cannot document something like this, I think as those costs go up to a retailer of durable goods, he may be as successful in passing on a little bit of it. I think he tidies up his own housekeeping as perhaps maybe everybody does. The cost is expensive and therefore he is also absorbing some of this higher cost in the way of either bank interest or finance company charges.

COMMISSIONER LEMAN: Well, you would be absorbing some, and he would be absorbing some?

MR. RANAHAN: The retail dealer may be absorbing some and he may be passing along some to his buyer which would be the consumer.

COMMISSIONER LEMAN: In your experience does your company absorb some of this higher cost?

MR. RANAHAN: Oh, yes. Actually, in periods in the past we have gone along for a while with the increase cost on money before we have passed any of it along. No one knows at any given point the duration of the rise in the cost of money. The treasury rate fluctuates each week and it is a while before it is discernible as to whether it is a firm upward movement.

COMMISSIONER LEMAN: Can you give us an idea, Mr. Ranahan, as to what the construction of the

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COMMISSIONER LEMAN: Can you give us an idea, Mr. Ranahan, as to what the construction of

spread is between your money costs? You were at the beginning of this chain and the consumer is at the other end and you have these intermediaries such as dealers. Could you give us some idea regarding this spread as to what the consumer pays, what you have to pay for the money, how much goes to the dealers and how much is for the finance company, let us say, in broad percentages?

MR. RANAHAN: In our brief, Mr. Leman, I think we have set that out probably in just a little different form from the way you are putting it but we show the percentage of our money costs to our income and you will notice how that has varied.

COMMISSIONER LEMAN: Can you give me a reference here?

MR. RANAHAN: Yes, page 112, Mr. Leman.

THE CHAIRMAN: Page 112?

MR. RANAHAN: Yes, Table V - 15. You will notice in the year 1961 that the interest paid by us on borrowed funds was 31.9 per cent of our income. In the immediate past that had reached a high the year before of 35.5 per cent. In 1957 it reached 35 per cent.

Now, those figures pertain to our consolidated operations which include both the sales finance business and the personal loans business. Since submitting this brief to you I have noted down the figures as applicable to the parent company which is the sales finance operation only. That might be interesting for you. For 1961 the parent company which reflects the sales finance operation interest costs were 36.1 per cent of the income. The year before, 1960, it was 38.9 per cent and if that point proves interesting enough we would be glad to give you those figures all the way back to 1950.

COMMISSIONER LEMAN: But the fact that the interest paid by you for the use of the funds is so much per cent of your gross income still does not

MR. RANAHAN: [illegible]

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COMMISSIONER LEMAN: But the fact that the interest paid by you for the use of the funds is so much per cent of your gross income still does not

explain exactly how the total spread between what the consumer pays and what you pay is divided between you and the dealers. That is what I am more interested in.

MR. RANAHAN: Then I may take you back to page 36 and there is a table numbered II - 4 on page 37. On that page, Mr. Leman, we have tried to give a broad example of the factors pertaining to the new car transaction that go to make up the dealer's time sale price. That is a varying factor. We cannot be any more specific than we have been but we have given you a range of the prevailing factors.

The dealer sets his own time sale price. These on that page are the factors which go to make up that time sale price and then on the following page, 38A, we have given you again an example of our charge to the dealer in purchasing that new car transaction from him.

Now, the difference between those two would belong to the dealer. He has sold the sales finance company a time payment transaction which contains a certain add-in to cover his cost and reserve against loss for having entered into that time payment sale and he turns around and sells that transaction and he sells it to a finance company and if he has charged more than the finance company has charged the dealer gets the difference. If he puts that document with the bank as collateral against a loan he, of course, gets a greater difference because the bank interest rate is lower than the charge we make for buying that

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contract from the dealer.

COMMISSIONER LEMAN: Are you telling me politely then that if I study these figures carefully I will get the answer I want?

MR. RANAHAN: I do not think you would have to study them too hard, Mr. Leman.

COMMISSIONER LEMAN: Well, actually my purpose in asking you the question was a slightly different one. What I would like to know is what influences the spread from time to time that the dealer can get on this business? Has the restrictive money policy something to do with it?

MR. RANAHAN: It would have at certain periods, yes.

COMMISSIONER LEMAN: And that is the way he absorbs part of the higher cost?

MR. RANAHAN: That is correct. If we have increased our charge to him and he does not pass it along to the customer then that reduces his income from that transaction.

THE CHAIRMAN: A very large portion of your business is motor car business, is it?

MR. RANAHAN: Yes, Mr. Chairman.

THE CHAIRMAN: Some time around the years 1954 or 1955 -- I just forget when -- the sales of automobiles declined, if you will recall. Is that so, am I right in the years? Some time around there there was quite a decline in the market for automobiles in Canada.

MR. RANAHAN: Yes, I have that here.

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THE CHAIRMAN: Well, I was just wondering whether that decline began before tight money was imposed or not?

MR. RANAHAN: Well, as I recall, there was a decline in total vehicle sales in 1954 as compared to 1953.

THE CHAIRMAN: And it declined further, did it, the following year?

MR. RANAHAN: No, it went back up again in 1955 where it exceeded the previous year; it exceeded 1953 by a slight margin.

THE CHAIRMAN: Then, when did the tight money begin?

MR. RANAHAN: The following year 1956 was higher again. In the following year 1957 there was a drop.

COMMISSIONER MACKINTOSH: At what point, the Chairman would like to know, if any, did tight money affect those figures that you have just quoted? When did money begin to tighten up?

MR. RANAHAN: As I remember 1953 there was evidence of tight money about mid-year. I remember 1956 better and again, as far as our own company was concerned, we thought we foresaw tighter money that year. As it turned out we were right. In that year in the month of May we took very positive steps to try to slow down the volume of our business and later months showed that our volume did slow down.

THE CHAIRMAN: Did that volume slow down because you had fewer applications or was it because

THE CHAIRMAN: Well, I was just wondering whether that decline began before tight money was imposed or not?

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THE CHAIRMAN: Did that volume slow down because you had fewer applications or was it because

you were not able to finance conveniently as many transactions as were asked for?

MR. RANAHAN: Well, in May 1956, the demand for our facilities, Mr. Chairman, the demand for money apparently in all sectors at that time, as I recall, was very strong. We thought we foresaw a period of very expensive money or hard to get money and starting in May, 1956, we became more selective and we took many other steps to slow down the growth that was taking place at that time.

THE CHAIRMAN: In 1956 did the demand for automobiles fall?

MR. RANAHAN: It was not discernible in the calendar year 1956 itself.

THE CHAIRMAN: When did it first become discernible?

MR. RANAHAN: Well, I think I will have to rely on memory there but I think by the end of that year.

THE CHAIRMAN: You see what I am trying to get at ---

MR. RANAHAN: Yes.

THE CHAIRMAN: I would like to see how those two matters are related, whether the action towards tightening money resulted in the fall of automobile sales or whether the fall in automobile sales happened to be coming on its own motion before there was any definite step to tighten money?

MR. RANAHAN: Oh, there was not scarcity or high cost of money through the 1956 period and it is

you were not able to finance conveniently as many transactions as were asked for?

MR. RANAHAN: Well, in May 1956, the demand for our facilities, Mr. Chairman, the demand for money apparently in all sectors at that time, as I recall, was very strong. We thought we foresaw a period of very expensive money or hard to get money and starting in May, 1956, we became more selective and we took many other steps to slow down the growth that was taking place at that time.

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pure conjecture as to what might have happened to car sales, Mr. Chairman. I would think they could have fallen off a bit anyway.

THE CHAIRMAN: Because my recollection was the automobile industry was beginning to drag during that period but I cannot remember at what date it began.

MR. RANAHAN: My impression is that 1956 really climaxed a long period of build-up that led to the peak sales of that year. There were the war days, consumer credit controls through the early part of the 1950's, there was a long time before there were enough cars to satisfy the demand that was there.

THE CHAIRMAN: So the point was being reached possibly when the automobile sales would, as a result of natural forces, decline?

MR. RANAHAN: That could well be so.

THE CHAIRMAN: So that if no action had been taken to tighten money automobile sales might have declined in any event?

MR. RANAHAN: Yes, I think probably that is right.

THE CHAIRMAN: Well, that is what I am trying to determine.

COMMISSIONER BROWN: I am interested in looking at the figures for 1958 and 1959. There is quite a change in interest rates between 1958 and 1959. At page 108 you show that at the end of 1958 you had $68 million in short-term secured notes outstanding at a weighted

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MR. HANAHAN: [illegible] is right.

THE CHAIRMAN: Well, that is what I am trying to determine.

COMMISSIONER BROWN: I am interested in looking at the figures for 1958 and 1959. There is quite a change in interest rates between 1958 and 1959. At page 103 you show that at the end of 1958 you had $[illegible] million short-term consumer notes outstanding at a weighted

average interest rate of 3.55. In the year that your weighted average rate was 6.03 you were up to $141 million?

MR. RANAHAN: Yes.

COMMISSIONER BROWN: It would appear that tight money did not prevent you getting money in the short-term market at all. You bank loans which are on page 106 were down $12 million as between those two years.

MR. RANAHAN: Yes.

COMMISSIONER BROWN: But this other is up $73 million?

MR. RANAHAN: Yes. I think if you look there is maybe an increase in our investment portfolio at the end of 1959 as compared to the end of 1958.

COMMISSIONER BROWN: Then this brings up the point we were trying to get at and that is it would appear when money gets tight the first move is to get money and be ready to service your customers.

MR. RANAHAN: Well, there was another series of events there, Mr. Brown, that in May, 1959, and again later in 1959 the banks restricted the credit lines of the sales finance companies and whereas the unused part of our bank credit line was always felt to be our cover for maturing short-term obligations, with the possibility of being denied that protection we had to set up an investment portfolio so that we would be able to use it if necessary to take care of our maturing obligations. So that that increase,

as you see it, from around $68 million to $141 million does not reflect an increase in that amount of money being employed in the receivables which is, of course, our business. I think we have the figure here which would show you how much that was.

COMMISSIONER BROWN: Page 47.

MR. RANAHAN: At the end of 1958 our investment portfolio in round figures was $15 million and the next year, the one you are looking at which was $141 million, was $52 million.

COMMISSIONER BROWN: What was the first figure?

MR. RANAHAN: $15 million against $52 million.

COMMISSIONER BROWN: And the purpose of this investment portfolio?

MR. RANAHAN: Was to have a cover or a cushion or protection against our maturing short-term obligations. The money we borrow on the short-term money market while, according to its original term, is 30 days to 365 days there is always some coming due every day in quite substantial amounts. We may have anywhere from $ 5 million to $10 million a day coming due which, if it is not renewed, must be paid. So the purpose of this investment portfolio in the absence of our traditional bank line was to protect ourselves against these maturing short-term obligations.

COMMISSIONER BROWN: I am afraid I do not quite follow because it was the short-term obligations that you increased as well as the investment account. The short-term obligations increased from $68 million

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COMMISSIONER BROWN: I am afraid I do not [illegible] that you increased as well as the investment account. [illegible]

to $141 million and next year another $5 million. The point is that this was at a period of very high interest rate.

MR. RANAHAN: I think you will find an increase at the same time, Mr. Brown, in our long-term obligations.

THE CHAIRMAN: On page 104, is that the one, the debenture issues?

MR. RANAHAN: Yes.

COMMISSIONER BROWN: The non-maturing increased $9 million. What I am trying to get at, Mr. Ranahan, is at this time of expensive money you increased your short-term notes outstanding, in other words, when money got tight you borrowed a lot more money and I am trying to find out why you borrowed that money unless it was to have it available to lend out?

MR. RANAHAN: Well, I should also add perhaps there, Mr. Brown, that during that period of 1959 the volume of our business coming in was quite strong. So that we were not just building this supply of money up to create this investment portfolio for the future. We were generating funds to provide ourselves with a reserve against maturing obligations but there was an increasing amount coming into our receivables too.

COMMISSIONER BROWN: That is the point I wanted.

MR. RANAHAN: At the end of 1959 our receivables in the parent company only were $418 million against $380 million at the year end before.

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MR. RANAHAN: At the end of 1959 our receivables in the parent company only were $418 [illegible]

COMMISSIONER BROWN: That is the point we were trying to get at and that was that in times of tight money you were apparently able to go ahead and expand anyway and therefore you were not restricted by the tight money policy.

THE CHAIRMAN: Not only on short-term notes but the same thing also applies to the debentures, doesn't it?

MR. RANAHAN: Yes, the debentures are up too.

THE CHAIRMAN: Up until 1957 the average ran around $5 million per year and then it suddenly went up to $12 million, then went down to $ 5 million and $ 6 million. Well, in 1957 it was $12 million plus $5 million and then in 1958 $6 million and then from then on it is $10 million a year.

MR. RANAHAN: Yes.

THE CHAIRMAN: Which shows a great increase over the former years and your short-term notes also increased during that period all the way from 1956 to 1961 with a drop in 1958. So the total has increased substantially.

MR. RANAHAN: I am afraid, Mr. Chairman, I did not perhaps answer Mr. Brown's point completely as to the extent we might have felt the monetary restraint through 1959.

Mr. Chairman, because I think that there may be some question -- public, anyway -- that in these periods of restraint it does not seem to affect us as much as others, I would like to answer Mr. Brown's point there. From the end of 1958 to the end of 1959 the total outstandings in the sales finance companies -- and that includes wholesale financing, which is inventory financing, and retail financing -- changed from $1 billion 216 to $1 billion 346. Now, at the same time, Mr. Brown, the bank general loans changed from $4 billion 138 to $4 billion 701. At the same time the retail consumer portion of the sales finance companies changed from $768 million to $806. The bank personal loan section changed from 553 to 719.

It is, maybe, difficult to say whether it was restraint or competition which caused the lower bulge in our industry as compared with the banks, but the fact does remain that the bulge among the banks was much greater than the bulge among the sales finance industry.

--- Short Recess.

COMMISSIONER LEMAN: Mr. Ranahan, during the recess I thought a little more about the spreads and the division of the spreads on consumer goods financing, and I was not able to quite arrive at a clear answer to what I was anxious to learn about, and that is, what

MR. RANDALL: I am afraid, Mr. Chairman, I did not perhaps answer Mr. Brown's point completely [illegible] restraint through 1959.

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percentage of the rate that the consumer pays goes to the dealer, and does it vary very much it, and is it typical of one particular field of durable goods financing, like automobiles, or is it spread pretty well over the whole range?

MR. RANAHAN: It pertains principally to the automobile type of business, Mr. Leman, but it is not confined to it. I will try to give you a couple of examples so that you won't have to worry too much about the tables in the book. I see on page 37 we have given you a range in the cost on a 24-month basis, whereas we have given you a range on our charge to the dealer on a 12-month basis. So, I will deal only with the 12-month basis for the purpose of the example.

I also mentioned earlier that the dealer sets his own time and sale price. We make a charge to the dealer when we buy the contract from him. A typical example on a new car transaction at the low range of prevailing add-ons to create a time sale price, the low range is charged at about $6.40 per hundred for 12 months. That is the built-in factor to create the time sale price. That is the charge the dealer makes. We would purchase that at 5.8, which means the dealer's retained portion of this time sale price would be .6 of the amount financed.

COMMISSIONER LEMAN: That seems to be about 10 per cent -- a little bit less than 10 per cent of the total charge?

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MR. RANAHAN: Yes. Where a higher time sale price factor may be used, and about the top of the range, it will $9 a hundred for 12 months. I might say, Mr. Leman, that I think about 60 per cent or better of the paper that we buy contains an add-in factor at the low range. But at the high range of $9 for a hundred we would buy that for just a little under $7 a hundred for 12 months which means that the dealer's retained portion of that charge is about 2 per cent -- $2 a hundred -- the difference between those two factors.

COMMISSIONER LEMAN: So that works out from about the simple to the double, going from low range to high range?

MR. RANAHAN: Yes; that is on a new car.

COMMISSIONER LEMAN: Is it, in your opinion-- and perhaps you don't know this for a fact -- but is it your opinion that this is fairly standard with all finance companies?

MR. RANAHAN: Within those two ranges, Mr. Leman, I would say that is pretty standard. I doubt if you will find time sale prices being created at factors much lower than the one I have quoted you, and I doubt very much if you would find any higher than the higher one I quoted you. I think those two ranges would embrace all the business.

COMMISSIONER LEMAN: Is this pattern fairly steady during tight money periods as well as easier money periods, or does it vary with that factor?

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MR. RANAHAN: Yes, it would vary. The price

at which we would buy that paper during a period of very expensive money would be higher than during a period when the cost of money is very low.

COMMISSIONER LEMAN: Do the dealers shop around on the basis of this spread?

MR. RANAHAN: It is a very competitive business. I think we mentioned in our brief -- I am not sure, Mr. Leman-- that there are 179 sales finance companies in Canada and we feel that is quite a big number servicing the total amount of business that is available. We believe it is very competitive, and of course the sales finance industry in turn, and the dealers with whom we do business, are competing against other sources of money too, which adds to its competitiveness. A high percentage -- 60 some odd, maybe -- of the time sales finance business is in the automotive field, and I doubt if there is a business that is any more competitive than that. In most market areas in Canada a person can go to two or more places to buy exactly the same car -- exactly the same car. So that a difference of $1 or $5 or $15 determines at which place he is going to buy the car, because it is exactly the same vehicle -- the same colour and everything else -- and there is usually a trade-in which creates competitiveness in that trade. So, the cash sale price, the trade-in, the time sale price become very competitive factors in the retail automobile trade.

COMMISSIONER LEMAN: When the chartered banks went into consumer loans did that have an influence on this factor we are now talking about?

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[illegible] banks went into consumer loans did that have an influence on this factor we are now talking about?

MR. RANAHAN: Yes, it has some influence in that at the outset as the chartered banks went into that field aggressively they advertised 36-month terms. In the sales finance industry and among the automobile dealers and other dealers we do business with we had not been advocating 36-month terms. As a matter of fact, we had never provided automobile dealers with the facilities with which to complete a 36-month transaction in the way of charges, and so on. As the banks moved aggressively into the field and advertised aggressively the 36 months, and the dealer, anxious to accommodate his customer to the same extent as the customer might get accommodation somewhere else, moved out into longer terms, and in moving out into longer terms there was a demand -- and a justified one, I think, Mr. Leman -- for the dealer to get a larger spread between his time sale price and his cost of financing that contract. His risk was greater and he was putting his customer out into the market for future business over a longer period. I think he was entitled to a somewhat higher charge as the term got longer. So, there was that influence and pressure on that aspect of it because of the competition arising out of longer terms.

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COMMISSIONER LEMAN: I notice on page 47 that the outstandings in latter years shown in the table tend to exceed the annual amount of loans whereas it used to be the other way around, you see. Is that an illustration of the lengthening of terms?

MR. RANAHAN: I am sorry, I missed the beginning of your point there, Mr. Leman. That is table IV - 3 on page 47?

COMMISSIONER LEMAN: That is right. You show in all cases the volume of paper purchased and the end of year balances. You see toward the end of the period you deal with that the balances exceed the amount of paper purchased whereas at the beginning the volume per year was larger than the year end balances. Is that a reflection of the lengthening of the terms?

MR. RANAHAN: Exactly.

COMMISSIONER LEMAN: Was it brought about by what you just mentioned?

MR. RANAHAN: I think what I just mentioned may be the strongest common denominator influencing that trend. It seemed to date pretty well from that time. I might just, if I can put my hands on it, give you ---

COMMISSIONER LEMAN: I will put my question in a more general form to get to the point I want to make rather than ask you this particular question on a matter which does not have too great an importance.

Do the competitive factors between finance companies work more on the question of the interest rate charged or does it have a tendency to pervade

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into granting longer terms and lower down-payments? What are the main factors of competition when you look to the consumer and when competition is more intense?

MR. RANAHAN: You mean between the finance company and the dealer or between the dealer and the consumer?

Finance companies compete among themselves first of all to get the dealers account. The business that we get is all generated through the automobile dealer, using him as an example. He is our prime customer and that is where we start to get our business from. So, in competition with other sales finance companies -- we compete to get that automobile dealer's business. Like everything else the cost factor to the dealer of doing business with one finance company as compared to another is a very paramount factor in his judgment as to which is the better company to serve his interests. There are other things that enter into the over-all finance company arrangement with a dealer; its policies, the proximity of its branch organization and some of the other things that we may do for dealers to help them promote their business as well as certain protective features that we give them, and quite a number that are put into an over-all package. The cost factor is paramount but it is equated I think and judged against all these other things that go into it.

COMMISSIONER LEMAN: So that your responsiveness to monetary changes has to work through some other intermediaries that may not have the same incentives to

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COMMISSIONER LEMAN: So that your responsiveness to monetary changes has to work through some other intermediaries that may not have the same incentives to

respond that you have. That puts another step in between the consumer and the authorities, does it not, in the effectiveness of monetary policy?

MR.RANAHAN: Yes.

COMMISSIONER LEMAN: So presumably dealers would think of other factors like a large finance company; the amount of funds they can make available for financing consumer sales, etc.; reliability of that finance company, and they must take these things into account. So, what I am driving at is this. Would you say it is the interest rate to the consumer that will respond the most according to tightness or easiness of money, or will it get into all kinds of other factors like length of term and the amount of down-payment allowed and that sort of thing?

MR. RANAHAN: I think first of all Mr.Leman as far as our industry is concerned there is a response to monetary conditions starting first with ourselves and secondly with the dealer. I think the dealer, as his cost of doing business with us goes up, and as his cost of doing business with his bank goes up, he takes inventory of the different things that he maybe should do to adjust his business accordingly. He may start to trade more conservatively which is another way perhaps of raising his prices. His own credit thinking undergoes a change. He may become more conservative credit-wise both in respect to his open account and his instalment credit. I think over a period of not too long a time that has the effect of reaching the consumer and results in him doing somewhat less

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Now, the mere existence of just a change in finance charges in itself I do not think is a deterring factor. It is all the other things that go with it. We may try, and the dealers are usually pretty co-operative in these instances, to handle less paper at 24 months than we were and more at 18, less at 18 and more at 12. Now, as the dealer responds to that that tends to shrink his market. His market instead of being 100 becomes 97 or 98, or something like that.

That process does go on. To the extent that 1957 car sales were less than 1956 it is hard to measure what portion that decrease was really due to all the things that were done, and many things were done credit-wise, and what might have happened anyway. But, by a strong sense of feel, I would think some portion of the decrease in car sales in 1957 as compared to 1956 were due to the credit steps that were taken through our industry first and the dealer second.

COMMISSIONER LEMAN: Unless the other Commissioners want to ask more questions on this point I should like to change the subject.

COMMISSIONER GIBSON: I would like to make one comment. Mr. Ranahan, this may sound like a rather odd question for me to ask, but were you not a bit inhibited in tightening up your requirements particularly in this latter period because of the more competitive situation? Did you not have a structural change going on with new competition which to a degree prevented the

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usual responses such as higher charges, making the requirements tighter than they might otherwise have been? You intimated this in certain respects.

MR. RANAHAN: Yes. That created an entirely new and greater problem in 1959, Mr. Gibson, than what we had to encounter in 1956. Simultaneously with the efforts that were put into motion in 1959 to cut down on the volume that we might otherwise have done, some of the banks announced their own plans in the consumer lending field and we did have to soft-peddle some of the things we had already undertaken to do.

COMMISSIONER GIBSON: This was not so at least to anything like the same degree in 1956, I take it?

MR. RANAHAN: No, that is right.

COMMISSIONER GIBSON: Your response in 1956 was perhaps what one might describe more normal or natural in those circumstances?

MR. RANAHAN: Yes.

COMMISSIONER GIBSON: Would you care to give us a brief description of just how you responded in 1956? What did you tell your managers and dealers and so on; and what kind of instructions went out?

MR. RANAHAN: Mr. Gibson, in 1956 as I mentioned earlier I think we anticipated, fortunately perhaps, quite a lot of what was to come and it did eventually come, and starting in May or perhaps even in April we sent out some directives to our branches in the way of letters portraying what we thought was coming and suggesting a higher degree of selectivity.

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That was followed up very quickly with a series of actual meetings with our managers in May, 1956. We had maybe 7, 8 or 9 regional meetings across the country to which we brought all our branch managers and explained to them that money costs were going up and it looked as though money was going to be very scarce, and we outlined a programme that we wanted them to follow. As the year progressed we intensified what we had started in April and May.

COMMISSIONER GIBSON: Would that programme include an increase in charges?

MR. RANAHAN: Yes, an increase in charge, a stricter adherence to down-payments and a determined effort to reduce the length of the average contract; a faster turnover of certain funds that might have been just a little bit slow; a greater adherence to the ground rules in respect to inventory financing, and practically all of the things that go into making up our day-to-day business. We made a very determined effort to cut down the length of the term of the average contract, because longer terms are great users of money. We realized that that may be the best way to cut down on the use.

After looking at the Bank of Canada summary in Instalment Sales Finance Companies Outstanding you may feel that there was no response to this effort that was put forward, but actually if you look at the purchases of the sales finance companies you will see the result. I know in respect to our own company before 1957 was out, or 1956 -- I think December -- we started

That was followed up very quickly with a series of actual meetings with our managers in May, 1956. We had maybe 7, 8 or 9 regional meetings across the country to which we brought all our branch managers and explained to them that money costs were going up and it looked as though money was going to be very scarce, and we outlined a programme that we wanted them to follow. As the year progressed we intensified what we had started in April and May.

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to buy less paper than the corresponding months of the year before. As a result of the things that we did we went through 12 consecutive months when we bought less paper than the corresponding months of the year before. It did not reflect in our outstanding receivables until late in 1957 except for the seasonal decline that always takes place in January and February. By the end of 1957 our outstanding receivables were below those of 1956, but by June of 1957 they were higher.

COMMISSIONER GIBSON: Thank you very much Mr. Ranahan. I wonder if you could give us copies of communications that you sent out in 1956. Would this be convenient? It would be of interest from this point of view.

MR. RANAHAN: Mr. Gibson we would be glad to do so if we are given the opportunity of editing those communications. We would be glad to send them to you.

COMMISSIONER GIBSON: Thank you very much.

COMMISSIONER LEMAN: You would want to take out the strong language.

COMMISSIONER BROWN: He just wants to take out the attachment of blame.

MR. RANAHAN: We want to make a good impression.

COMMISSIONER LEMAN: Mr. Ranahan, there is one thing here that you want to do to credit unions which nobody else has suggested yet. You talk about their tax status, and quite a few others have talked

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COMMISSIONER LEMAN: Mr. Ranahan, there is one thing here that you want to do to credit unions which nobody else has suggested yet. You talk about their tax status, and quite a few others have talked

about them too, but on page 6 of the summary to your brief you get into a completely different realm of medicine that you propose.

Credit unions were formed originally and primarily to make credit in small amounts available to people who could not get credit through normal channels. I think if you go way back that would be at the source of their birth. What you are suggesting here in the way of restrictions on their activities would change their nature completely, would it not?

MR. RANAHAN: Yes.

COMMISSIONER LEMAN: Are you directing your criticism of the way they operate to all of them or some of them geographically; all types of credit unions, or is it general?

MR. RANAHAN: I do not know that we have quite enough information to answer that, Mr. Leman. Probably out of the great number that exist there could well be some that are still operating according to their original concept, but our impression is that on the other hand there are a great many that are not, and that have assumed the size and activity of commercial enterprises. Also the statistics taken from the Bank of Canada Survey do not show of course the lows and the highs of the reserve positions and so on. All we have is the national average. I believe if the Quebec credit unions are taken out of that Bank of Canada total you might find that the remaining reserve positions are quite low; considerably lower than the national average.

[illegible]

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COMMISSIONER LEMAN: Well, of course, after the papers are presented to this Commission about credit unions, as well as the others, you probably will have more information about credit unions in Canada, but do you not think that if the credit unions were restricted as you suggest here that there would be no more reason for their existence except in that vary, very narrow field of encouraging thrift? Do you not think that there might still be areas where credit unions are performing a useful function by making credit in small amounts available to members?

MR. RANAHAN: Yes, Mr. Leman, I agree with you. I think in addition to what we have said in our brief, and perhaps we should add, that there might still be a function there that they should perform by way of mutual aid. I think we have given full emphasis to their worthiness as encouragers of thrift. It might safeguard the savings that are trusted to them under the heading of thrift. I think as a small parochial self-aid organization perhaps there would be many instances of worthiness in the lending of money to their members.

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COMMISSIONER BROWN: Their loss ratio seems to run province by province about .15 of one per cent and seems to fall in line with other credit organizations.

MR. RANAHAN: Yes.

COMMISSIONER BROWN: I am not sure that making a move such as you suggest does not make their liquidity less than it is at the moment.

MR. RANAHAN: We might even expect their loss ratio to be better than is indicated because of the feature that they make of being so close to their members.

COMMISSIONER BROWN: Then why do you want to do this to them?

MR. RANAHAN: Well, thinking of it in two aspects, in there there are $800 million odd (I may be wrong in that figure) representing the savings of many hundreds of thousands of individuals. Now, those savings might be well safeguarded, we do not know, but we think that that is the responsibility of someone to make sure that they are. In the case of a company like our own, Mr. Brown, if we put out a $5 million secured note this afternoon taken up by an institution that are professional in their ability to invest, they are very sophisticated in their ability to invest, we have to go to a great deal of expense to disclose our financial position. We have legal expenses, we have prospectuses, and all these things.

Now, it seems to me that where we are borrowing

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Now, it seems to me that where we are borrowing

from sophisticated lenders we have to go through more to safeguard those lenders than maybe the credit unions do in dealing with the individuals' savings and yet they are a competitor. So as a competitor we are required to spend more money to protect our source of borrowing than apparently they do.

COMMISSIONER BROWN: This is because the lender requires you to.

MR. RANAHAN: The Companies Act, I think requires us to, and whatever other laws pertain to the issuing of securities.

THE CHAIRMAN: And the issue of the securities -- yes, on your bonds and debentures.

MR. RANAHAN: Yes.

THE CHAIRMAN: Well then, you buy all sorts of other securities, though, without having to go through all that.

MR. RANAHAN: I was thinking only, Mr. Chairman, of money that we borrow. We go through a great deal --

THE CHAIRMAN: But you issue short term notes of one kind and another.

MR. RANAHAN: And we go through the same procedure. We issue prospectuses at considerable cost and they are sold by licensed investment people.

COMMISSIONER BROWN: Is this a purely altruistic suggestion that the public should be protected?

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MR. RANAHAN: Well, I think it would here

to put one segment of the financial community more on a par with other segments of the financial community. That may be desirable.

COMMISSIONER BROWN: Would there not be other ways of achieving this same object?

MR. RANAHAN: Yes, there might be, Mr. Brown. That was one that occurred to us because it is close to what other finance institutions are required to do with the funds that are entrusted to them. For example, I believe that moneys deposited with trust companies can be put out only on a certain prescribed basis and that moneys that you put in an insurance company can only be put out on a certain prescribed basis. So the suggestion we made seemed to us to be the one about the closest to what we now demand from a trust company, an insurance company, a bank or company like our own, especially when that amount is so important and so many people are involved.

COMMISSIONER MACKINTOSH: Don't you think little people ought to be able to take advantage of being little? They get most of their money by shares, the acceptance of deposits, they do some borrowing at various times from the chartered banks and they borrow amongst themselves. I take it if they borrow from the chartered banks they have to observe the same requirements as any other borrower. They have developed certain short cuts and cheaper ways because they do a lot of voluntary labour and most of them, not all of them buta great many of them deal with comparatively small groups of people who

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are known personally to them.

MR. RANAHAN: Dr. Mackintosh, I think your description there fits admirably the concept we have of what a credit union is supposed to be. But from the evidence that we have and from studying their operations to some extent they no longer generally fit that description. They now embrace a great many people into a so-called single membership. I believe it was in the brief that was submitted to this Commission in Saskatchewan where, if I recall correctly, and if my arithmetic is right, the average membership per union was about 590 and that seems in a sparsely populated province a great membership for a so-called parochial group that know each other intimately and that are banded together for self help.

COMMISSIONER MACKINTOSH: My recollection is they think 100 is the minimum they can operate with so their average will be above that, but I think some of the things you are saying apply to a number of the large city credit unions where in effect the population of at least a certain part of the city is at least eligibile for membership. I would have to look up the facts and figures to see how big a fraction this was.

COMMISSIONER BROWN: It was quite considerable in Saskatchewan. There was one large one in Saskatoon and another one in Regina which puts your average a way out of line, so while your remarks are probably applicable to some of those such as the one in the

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COMMISSIONER BROWN: It was quite considerable in Saskatchewan. There was one large one in Saskatoon and another one in Regina which puts your average a way out of line, so while your remarks are probably applicable to some of those such as the one in the

city of Vancouver which anyone can join I am not sure that could be generally applied.

MR. RANAHAN: I intended to say that, maybe I did, in my opening remarks, I am sure there are many hundreds of credit unions that will answer the description that applies to the original philosophy under which they were organized. In that capacity I think they serve a well worthwhile purpose.

COMMISSIONER LEMAN: Can we talk now a little bit, Mr. Ranahan, about that thorny question of disclosure of finance charges. Your ideas on this subject are fairly similar to some other ideas we have heard. What I am groping for is this: don't you think that there would be a way to set a formula under which by using certain standards the finance charges could be expressed in the form of an interest rate providing the formula was clearly stated perhaps by statute?

MR. RANAHAN: Mr. Leman, I hope you do not think my answer to that is prejudiced, but having been in this business for many years and working in it at quite a few different levels I really do not see how that is practical. I differentiate between the merchant selling something on time and perhaps somebody lending money. As far as we are concerned in Industrial Acceptance we are engaged in time sale financing which is buying these time sale transactions from merchants and dealers.

I had the opportunity to spend quite a bit of time on this subject in 1953 and 1954 with the Alberta

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government. They undertook at that time a Bill, or at least a proposed Bill which called for disclosure of finance charges at an equivalent rate per annum and along with some others in our industry I spent quite a bit of time in Edmonton and we appeared before the House committee which was really a committee of the entire House and discussed that subject.

Now, rightly or wrongly, it was considered by them impractical to do what they had set out to originally do. But their main aim was disclosure, clear disclosure that the newest immigrant into Canada could understand. That is what they wanted to set out and we were 100 per cent for that objective. As a result of all these discussions they did bring out a bill which gave the alternative and particularly then everybody complying with the bill did give full dollar disclosure. Now, we advocate strongly full dollar disclosure because it is something that everybody understands.

In Senator Kroll's argument to the Senate on the subject, I think it was in this case (I may be quoting wrongly) but it came up on this argument, the case of a battery being sold for $20 and being financed in semi-monthly payments over three months or something and the charge was $2 and that that was 60 per cent, and therefore should be disclosed. Actually, it was more than 60 per cent, if you work out the right arithmetic on it, but he claims it was 60 per cent.

Now, telling the buyer of that battery that

[illegible]

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Now, getting the buyer of the [illegible]

that $2 was 50 per cent was not contributing, in our opinion, anything to his welfare. It contributed nothing to his ability to shop well, because he knew that that battery then was going to cost him $22 over that period of time, or $20 cash and he was in a position to go from service station to service station or from garage to garage and find out how much for a ten plate battery and he would get quoted $20, $21 or $24, he could make his comparisons and buy where he thought he was buying to the best advantage. There could be absolutely no subterfuge, there could be no distortion, there could be no misunderstanding in a full dollar disclosure. We advocate full dollar disclosure strongly. We think to try and put it any other way will not serve a useful purpose and from a practical standpoint we really do not see how it could be worked.

COMMISSIONER LEMAN: But the total dollar approach also has some weaknesses too. You choose the example of the battery with the $2 charge, and certainly, according to your argument, I will go along with you to a certain extent that a $60 rate seems ridiculous but there is another end to this range, is there not, and if you buy a larger article on twelve month terms against 36 month terms, the same $500 article, for instance, it makes quite a difference if you then quote the dollar charge, doesn't it? Obviously, the total price you pay over the period will not be comparable unless the person buying it understands the advantage of having an extra

[illegible]

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24 months to pay.

MR. RANAHAN: Even though the interest rate, if it should be calculated, differed as between the 12 months and 24 months, Mr. Leman, I am wondering at the point where a man is buying an article if that is informative, whereas if the finance charge is $24 for 12 months or even to take a higher amount, if the finance charge was $100 for 12 months and $200 for 24 months, I think it is far more informative that he knows it is going to cost him another $100 or another $8 a month by taking this longer term.

So if he has gone into dealer A and he has been quoted a deal for 12 months and he goes to dealer B and he is quoted a deal for 24 months, there might be two different rates involved, but if it is costing him $100 more in one case he has the basis for a good sensible judgment. If the second case of $200 worked out to be a lower percentage rate it might not necessarily result in a good judgment.

COMMISSIONER LEMAN: What in your view is the legislator trying to accomplish by groping for a good disclosure formula? Is he merely trying to enable the consumer to shop around for the best deal he can get, or is he trying to make him try to guage whether it is worthwhile for him to finance or not finance or take a little longer, or save a little longer and pay cash, or what is he trying to accomplish?

12 months and 24 months, Mr. Leman, I am wondering at the point where a man is buying an article if that is informative, whereas if the finance charge is $24 for 12 months or even to take a higher amount, if the finance charge was $100 for 12 months and $200 for 24 months, I think it is far more informative that he knows it is going to cost him another $100 or another $8 a month by taking this longer term.

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MR. RANAHAN: Frankly, I do not know, Mr. Leman.

COMMISSIONER LEMAN: What sort of protection do you think, then, that the public needs in this field? One finance company this morning admitted quite frankly that there was a great deal of confusion in the public's mind as to what the real costs of financing were.

MR. RANAHAN: It may be difficult for the public to make comparisons between different segments of the consumer credit industry; in other words, to compare the add-in to a dealer's time sale price along with what it would cost him at the bank or what it would cost him at a loan company or what it would cost him at his credit union, but in as much as each of those operations is different probably the greatest common denominator again would be full dollar disclosure.

In the sales finance industry I feel that all dealers -- maybe that is too all-embrasive but the majority of automobile dealers, domestic dealers, the type of dealers that are doing business with sales finance companies are giving their customers full dollar disclosure and that as between one automobile dealer and another or one appliance dealer and another or one industrial equipment dealer and another that the buyer can make a dollar for dollar comparison, and I think that is available to him now.

In our brief after page 33 which would become page 34 we have enclosed a sample conditional sales

contract and you will notice in the box we show the amount financed and added thereto is the finance charge and the only item over and above that is printed in at $1 for a recording fee which applies only in those provinces where there is such a recording fee.

In respect of some of the personal loans plans of the banks, perhaps that cost of borrowing on the money is not so clearly earmarked for the borrower. I think the practice varies as between banks and some may quote an interest rate plus charges, or just the total amount of note less a discount. I am not sure that all the documents I have seen clearly expose the full dollar cost of borrowing as is the case with this contract that you see in front of you.

THE CHAIRMAN: This contract -- where do I find it?

MR. RANAHAN: It is page 34, Mr. Chairman.

THE CHAIRMAN: Yes, I have got it, but there is a great deal of print on this page. Where do I look for this?

MR. RANAHAN: In the box.

THE CHAIRMAN: It is not in red, is it?

MR. RANAHAN: No, in the box half way down on the left of centre. You see the cash price of the car, the license fee, less your trade-in, your insurance premium, if any.

THE CHAIRMAN: Yes.

MR. RANAHAN: Each of the items making up the total price and the total amount that eventually the customer will pay are clearly set out there line by line starting off with the cash price, adding in the extra equipment, arriving at a delivered price, less the trade-in, less any cash payment, and the remaining balance at that point: Add to that any insurance premium, if there is any, and you come to

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MR. RANAHAN: Each of the items making up the total price and the total amount that eventually the customer will pay are clearly set out there line by line starting off with the cash price, adding in [illegible] less the trade-in, less any cash payment, and the [illegible] insurance premium, if there is any, and [illegible]

a total amount to be financed, and to that is added the finance charge, plus on the form you have $1 for recording fee, and you then have the total deferred payment.

COMMISSIONER LEMAN: I also note on the form at the top, "To Purchaser: Please read conditions on reverse side carefully".

THE CHAIRMAN: When you get to that finance charge for "blank" months -- suppose it is for 24 months?

MR. RANAHAN: Yes.

THE CHAIRMAN: What would be the figure at the right? It would be 24 times what?

MR. RANAHAN: No, the figure at the right would be the complete finance charge for the entire 24-month period.

THE CHAIRMAN: It would include the interest and all the other incidental items?

MR. RANAHAN: Everything except that $1 that appears below.

THE CHAIRMAN: In a lump sum total?

MR. RANAHAN: Yes.

COMMISSIONER BROWN: On the right of that you refer to a 12 per cent per annum charge for delinquencies?

MR. RANAHAN: That is correct, yes.

COMMISSIONER LEMAN: Mr. Ranahan, if I ask you this question -- and you said you didn't know what the legislature was worried about -- if the consuming public is encouraged through disclosure of total costs

[illegible] mount to be financed, and to that is added the finance charge, plus on the form you have $1 for recording fee, and you then have the total deferred [illegible].

COMMISSIONER LEMAN: I also note on the form at the top, "To Purchaser: Please read conditions on reverse side carefully".

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MR. RANAHAN: No, the figure at the right would be the complete finance charge for the entire [illegible] period.

THE CHAIRMAN: It would include the interest and all the other incidental items?

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COMMISSIONER BROWN: On the right of that you refer to a 12 per cent per annum charge for [illegible].

MR. RANAHAN: That is correct, yes.

[illegible]

only to think in terms of, "Well, this article will only cost me $7.27 a month for the next 34 months, so I will buy it", does he really know what he is paying for in the way of service on top of the original price of the article he wants to buy?

MR. RANAHAN: No, I think if the only disclosure was what he pays per month, and if he had to go through the aritmetic then to figure out how much was the finance charge, I don't think that would be what I would call full dollar disclosure. Full dollar disclosure includes setting out the finance charge where it can be easily identified as an item by itself, and that even though it forms part of the time sale price, it is the difference between the cash price and the time price. We advocate this be lifted out of the time price and set out as an identifiable item by itself so that it is fully disclosed and not just in the monthly instalments.

COMMISSIONER LEMAN: Suppose we go back to your battery buyer and you tell him if he buys the battery for cash it is $20, and for three months or six months it is $22: If he comes to the conclusion that that is 60 per cent interest, what prevents him from coming to that conclusion himself?

MR. RANAHAN: Well, he is entitled to , maybe, figure that out, and perhaps some of them do, but I think his main point of consideration, Mr. Leman, must be what it costs him in dollars. I would think that would be the same as if he might start to worry about what this battery cost this garage man and how

only to think in terms of, "Well, this article will only cost me $7.27 a month for the next 3½ months, so I will buy it", does he really know what he is paying for in the way of service on top of the original price of the article he wants to buy?

MR. RANAHAN: No, I think if the only disclosure was what he pays per month, and if he had to go through the aritmetic then to figure out how much was the finance charge, I don't think that would be what I would call full dollar disclosure. Full dollar disclosure includes setting out the finance charge where it can be easily identified as an item by itself, and that even though it forms part of the time sale price, it is the difference between the cash price and the time price. We advocate this be lifted out of the time price and set out as an identifiable item by itself so that it is fully disclosed and not just in the monthly instalments.

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much markup is he getting off him on the cash price. Or, I think if a man goes to rent a garage that has perhaps cost the owner $1,000, and he is quoted a rental of $15 a month, he probably doesn't concern himself with that being 18 per cent of the landlord's investment in that garage, and if he did he might get a little concerned that anything over 6 per cent is too high. But yet at $15 a month it is a very reasonable rent for a garage in which to park his car, and he knows that is only 20 per cent or 5 per cent of his monthly income, or whatever it may be, and that $15 can be figured into his budget, but 18 per cent cannot be calculated into his budget. I think the one serves a very useful, constructive purpose, and the other does not serve any purpose at all that we have been able to uncover, and it could have the opposite effect of distorting something for no good.

THE CHAIRMAN: Do you ever get complaints passed on to you from customers as to the interest rates they discover they are paying after they have entered into the transaction?

MR. RANAHAN: Yes we have, Mr. Chairman.

THE CHAIRMAN: That have reached the company?

MR. RANAHAN: Yes.

THE CHAIRMAN: Are there many?

MR. RANAHAN: Not voluminous, no.

THE CHAIRMAN: You have a huge volume of transactions, and it would be a very small percentage?

MR. RANAHAN: Yes.

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MR. RANAHAN: Yes.

THE CHAIRMAN: Every once in a while there is a newspaper article on this subject, and no doubt that gives rise to some correspondence?

MR. RANAHAN: Yes, it does.

THE CHAIRMAN: And if a person knows exactly how much money he has to pay a month for a specified number of months in order to have the advantage of possession and use of an article like a motor car, or a machine of some kind, which be productive to him, there seems to be some sense in that -- I don't know. I suppose a great many people who buy automobiles on time are people who need them for business purposes -- commercial travellers and people of that kind, who probably get 10 cents a mile or 15 cents a mile from the company they are employed by, and they figure out whether that covers the cost, and that is what really interests them, because they must have the car and they haven't the money to buy it. That is the situation.

MR. RANAHAN: Actually, Mr. Chairman ---

THE CHAIRMAN: They can go around and find out whether they can get a better deal from somebody else, because there are many people in the business. That is your position -- I am putting it in words you may not agree with, but I am trying to put it as I understand your position.

MR. RANAHAN: We find the average Canadian citizen, the typical instalment buyer if you like, a pretty good businessman in his own particular sphere. He may be a blue collar worker, if you like, but generally speaking he is an astute buyer. A very

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high percentage of the people who buy on instalments are married and have attained some position of substance in a sense they have enjoyed the same place of employment for a reasonable length of time and they have lived at the same place for a reasonable length of time and they are pretty good citizens. We find these people are pretty astute shoppers, and if they are paying a hundred dollars finance charge on a new automobile I think that many of them do figure out, as you have suggested, Mr. Chairman, that is $8 a month, and $8 a month is not very much for the privilege of acquiring this new automobile and being able to drive it over the next 12 months while paying for it.

THE CHAIRMAN: $ 8 a month -- it must be more than that.

MR. RANAHAN: I am just taking the finance charge.

THE CHAIRMAN: You must be talking about a Hotpoint one cylinder stove. You mean the finance charges.

MR. RANAHAN: Yes.

THE CHAIRMAN: But I am thinking of everything including the interest.

MR. RANAHAN: Everything -- not the principal -- not the unpaid balance.

COMMISSIONER LEMAN: The only thing that puzzles me a little bit in your reasons for feeling that way is that to your company, as a borrower, it is extremely important to know what interest rates

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you are paying, and yet you seem to feel that once you get down to the consumer level that is not very significant any more. I wonder why that is? What is the difference? To the consumer, some of the larger durable goods that he buys are a form of investment. Some of the argumentation we hear from finance companies is that, in effect, a consumer as such will save himself money if he has a refrigerator instead of buying ice -- you know the development of all these commodities in the house. I think we hear finance companies argue that the actual true cost of these things is not as high as they seem to be because they save money elsewhere by doing your laundry at home and all that sort of business. So, it is an investment for them, isn't it?

MR. RANAHAN: Yes.

COMMISSIONER LEMAN: So,I am wondering what happens at the consumer level that makes the interest rate of less importance than at all the other intermediate levels.

MR. RANAHAN: I think there are two different commodities: In the case of a company like ours borrowing money, or anybody borrowing money, we are going out to shop, if you like, for so much money, and the usual measure is the rate of interest applicable thereto. What we are talking about really is people going out to buy merchandise, and they are going in to buy a refrigerator, television set, or a new car or a used car, or whatever it may be: That is what he is shopping for. He may be interested in two sets of

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circumstances: He may be interested only in the price of that article on a cash basis, but he may also be interested in what this will cost him if he pays for it over twelve months. But, at that point, in dealing with the merchant, he is not borrowing money from that merchant. He is deferring the payment of that merchandise over a period of twelve months, and I think his one measure of cost is related to time sale price or cash sale price, whichever the case may be.

COMMISSIONER LEMAN: Somebody is borrowing from somebody in this transaction.

MR. RANAHAN: We are buying those contracts from a dealer, but perhaps I might go a little further in this way: In our own company we are dealing with maybe four to five thousand dealers across the country -- some of them quite big, some of them small. But even the average dealer employing maybe five or six salesmen and selling merchandise would find it from the practical standpoint, I think, impossible to comply with any regulation there may be that his time sale price was to be converted into some kind of per annum rate. First of all, we understand there are five different formulas for taking a given dollar charge for a certain period of time and converting it to an equivalent per annum. So, the first question, which of the five? But, from a more practical standpoint the television or refrigerator dealer will give his salesman a table of finance charges, and from an amount of $201 to $210 there might be a charge of

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$12 or $15 -- whatever it may be. From $211 to $220 the charge might be $13. Now, the salesman gets up to close a deal very often at night in somebody's home -- and that is quite prevelant -- and instead of financing an even amount such as you might have in a charge where you set forth a per annum rate it turns out to be $255.75, and I really defy any retail salesman in this country to be able to sit down with that customer and convert that to a per annum rate. I think it would impose great hardship on retail merchants and their sales organizations in Canada if they had to go through that type of arithmetical exercise.

We believe what would happen would be a return to a practice that existed some years ago, and we think fortunately has been left behind us, where merchants would develop only a time sale price. Now, they might quote a discount for cash if some customer persisted, "I don't want to finance this for ten months. I want to pay cash. How much?" Well, they might then get a discount for cash. All the dealer would be quoting would be a time sale price. In that way there is nothing to convert into an equivalent per annum rate. That is what we call driving the finance charge underground. There is no disclosure at all.

Two chesterfields may look the same and feel the same at the moment, but a difference of $10 or $15 or $20 may not mean too much, and there could be a loading of finance charges in the one case and a

$12 or $15 -- whatever it may be. From $211 to $220 the charge might be $13. Now, the salesman gets up to close a deal very often at night in somebody's home -- and that is quite prevelant -- and instead of financing an even amount such as you might have in a charge where you set forth a per annum rate it turns out to be $255.75, and I really defy any retail salesman in this country to be able to sit down with that customer and convert that to a per annum rate. I think it would impose great hardship on retail merchants and their sales organizations in Canada if they had to go through that type of arithmetical exercise.

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very modest charge in the other, but the buyer has no way of knowing if both merchants were quoting just a time sale price.

Also, another unfair aspect of that is that if the merchants dealing only with that time sale price have somebody come in who is willing to make a substantial down-payment and pay the balance in ten months, and the next customer comes in and he is prepared only to make a small down-payment and finance the balance for 24 months, the man who has paid the higher down-payment and is willing to pay for it at a faster rate is, in effect, subsidizing the customer who has taken the longer period.

Time sale price without disclosure of finance charge went out some years ago, and we think there was a very definite improvement in merchandising practices as a result of that. We would guess there would be a trend back to that if a finance charge was called for to be converted to a per annum rate.

COMMISSIONER MACKINTOSH: There is another approach to this, isn't there? You are talking about how to explain the finance charges to the customer: How did you arrive at the finance charge? Isn't it made up of various elements?

MR. RANAHAN: Yes.

COMMISSIONER MACKINTOSH: Can't that be set down simply?

MR. RANAHAN: Well, it could be set down. As I mentioned earlier, the dealer sets his time sale price at the outset. That will vary, as we also

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mentioned, because each dealer's overhead may be different; each dealer's volume of business may be different; each dealer may have a different philosophy on the amount of markup he is satisfied to work with.

COMMISSIONER MACKINTOSH: I have seen their faces fall when you offer them cash.

MR. RANAHAN: Well, the same dollar factors that go to make up a cash price exist in a time price. When you go in to buy an automobile there must be something in the markup between the wholesale and retail price to provide for salaries, rent, some return on the investment, maintenance and so on. Actually almost just the same items apply again when a time sale price is created. There is a salary factor, a rent factor, a maintenance factor, and there is maybe the case of a company car: There is an investment and a risk of loss. So, I think the process of establishing a markup is the same in the case of one as in the case of the other.

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I think if you have seen a dealer's face fall when you have maybe backed away from a time payment purchase it does because a number of dealers have suffered the loss of sales because somebody has said, "I am going to pay you cash for this. I will be back on Saturday afternoon.", and the dealer has not seen him again. Now, in the meantime that customer has either walked by somebody else's used car lot and has got enticed thereon, or he has gone to some place to borrow the money and they may have suggested that he should go see so and so and buy the car. Many dealers have suffered the loss of business because people have walked out to come back with the cash.

COMMISSIONER MACKINTOSH: No, you see his face fall when you hand him the cheque.

THE CHAIRMAN: We wish to thank you very much Mr. Ranahan for your very interesting presentation.

MR. RANAHAN: Thank you Mr. Chairman and gentlemen.

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THE CHAIRMAN: We wish to thank you very much Mr. Ranahan for your very interesting presentation.

MR. RANAHAN: Thank you Mr. Chairman and gentlemen.

SUBMISSION OF BUSINESS DYNAMICS

Appearances

Roger G. Bowles - President

THE CHAIRMAN: Mr. Bowles, we have all read the brief. I think some of the members are ready to ask questions and it may be unnecessary for you to read the brief now.

MR. BOWLES: Thank you Mr. Chairman. I think this is probably the better way of doing it.

THE CHAIRMAN: We will begin with questions.

COMMISSIONER GIBSON: Mr. Chairman, perhaps I might ask Mr. Bowles a few questions.

I take it that your thesis is that there is a serious shortgage of capital and long-term funds for promising, or what you describe as small businesses in the construction and manufacturing field below a certain size, and you mention up to $ 2 million, or something of that nature as the measure of size. You give the idea that these people either do not get enough money for their needs or they have to pay too much for what they get. Would you mind elaborating on this and telling us if that is a fair summary of the problem that you are presenting to us?

MR. BOWLES: I think Mr. Gibson this is certainly a major section of it. We define small businesses for our purposes as being those with a total capitalization, be it debt or equity, below

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MR. BOWLES: I think Mr. Gibson this is certainly a major section of it. We define small businesses for our purposes as being those with a total capitalization, be it debt or equity, below

$2 million. This is open to argument, but for our purposes let us say this is what we are talking about, which may constitute quite a small portion of the total industrial picture. Nevertheless to the people who are in this realm, people with whom I am in day-to-day contact, there is an absence of what I would term adequate financing, and it is painfully apparent. In as much as, to use I think the expression that you brought out, either the funds are available at an interest rate, and more particularly at a repayment period, which is prohibitive in terms of the company's cash flow or the size of the capital project is reduced to the level where it will enable the company to raise funds at anything below that rate and may cut back its capital programme and in effect reduce the level of its operations below that which is probably economical.

The pleas that I have entered here, which I might add has now been echoed by several people to whom I have subsequently shown this brief, is that the gap which exists between the 6 per cent institutions, or thereabouts, and the 15 or 18 per cent lending institutions be somewhat narrowed, perhaps to somewhere in the neighbourhood of a 10 per cent risk level. We particularly submit that equity be made available wherever possible instead of term debt, where it is appropriate.

I think it is true to say that most finance companies tend to try to achieve repayment for the purchased piece of equipment, let us say, to a too

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short period of time. Thus they feel they are assisting the company in purchasing this equipment, but the strain of retiring that obligation in 18 or 24 months is such as to not only make it uneconomical in terms of the interest rate but almost impossible to handle in terms of cash flow generated from having that piece of equipment which has been financed.

COMMISSIONER GIBSON: : You speak of adequate financing for these people, and in your brief you used the word "deserving"; certain people deserving better financing. These, of course, tend to be subjective terms. Are you saying in effect that these are people that have a good economical future who could really make the grade but are not, in your opinion, getting a reasonable deal in terms of the kind of competitive price type of society that we have?

MR. BOWLES: Many of them do indeed make the grade, Mr. Gibson, but it is rather in spite of the money market than because of it. To me it is quite remarkable what some people can do with the limited debt and equity resources available to them. I only contend that if these were more generous they could do very much better.

COMMISSIONER GIBSON: If we are going to be more generous we must have a reason for it. There has to be a social risk, for instance, if the government is going to do something to make things more favourable, or there has to be an incentive if it is going to be done through private enterprise. What is your thesis

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that private enterprise can adapt itself to meet this need which you believe exists?

MR. BOWLES: This is one portion of it, certainly. I made reference to the S.B.I.C.'s in the United States which is a relatively new feature and I think a desirable one worthy of consideration by the Commission.

I am sorry I will have to come back to this subject. I had another point in mind but it will probably return to me in a second.

COMMISSIONER GIBSON: Perhaps we could sort of explore this area a bit between what you call the six and seven per cent money and I think you mentioned the 18 per cent money. There is quite a difference in that type of money. My impression is that the 6 per cent money is mostly short-term money related to inventory and receivables; not all of it but a great portion of it. I suspect the 7 per cent money that you are talking about is money from the Industrial Development Bank. This can be and is to quite a degree term money. Are you suggesting that if you had higher rates for banks specifically and for the Industrial Development Bank specifically this would attract them into the term field, because this seems to be one of the central points here?

MR. BOWLES: First I would say that they should consider a more frequent use of equity financing, and if this cannot be done then they should be prepared to consider 15 but not 18 per cent.

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MR. BOWLES: First I would say that they should consider a more frequent use of equity financing, and if this cannot be done then they should be prepared to consider 15 but not 18 per cent.

There is -- and I make this plain -- no halfway house. You are either qualified for an I.D.B. loan or you go the alternate route which most often is a finance company. Both of them do a fair job in their restricted fields but let us -- I have heard the expression used --"grow respectable" such that you can acquire I.D.B. funds at the lesser interest rate and you really have to do quite substantial financial gymnastics to clear one obligation before you can take on another one, and the situation may arise where one company which is relatively successful and can afford to pay 17 per cent or 15 per cent on its money is declined I.D.B. assistance whereas its competition across the street is granted it at 6½ per cent. This, I would say, is fostering the less efficient and this sometimes looks like subsidy for the people involved.

THE CHAIRMAN: Any more questions?

COMMISSIONER BROWN: I just wonder how you do measure this in the marketplace?

MR. BOWLES: I am sorry, Mr. Brown, measure the --

COMMISSIONER BROWN: How does a decision come to be made on the ground as to whether a loan be granted by the I.D.B. or the finance company?

MR. BOWLES: I wish I knew the answer to that. It obviously is not easy. It does seem to me that a submission that was made this morning is becoming generally more true, that the finance companies are the lenders of last resort. It also

[illegible]

most often is a finance company. Both of them do a fair job in their restricted fields but let us -- I have heard the expression used -- "given respectable" such that you can acquire I.D.B. funds at the lesser interest rate and you really have to do quite substantial financial gymnastics to clear one obligation before you can take on another one, and the situation may arise where one company which is relatively successful and can afford to pay 14 per cent or 15 per cent on its money is declined I.D.B. assistance whereas its competition across the street is granted it at 6½ per cent. This, I would say, is fostering the less efficient and this sometimes looks like subsidy for the people involved.

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seems to me that they fix their interest rates for loans on some basis arrived at from experience, loss experience presumably. I.D.B. does not apparently do it on the basis of loss experience; it is determined in another manner but that two people should arrive at such remarkably different rates and spell out different repayment periods (this is I repeat the most painful aspect itself, the accelerated repayment periods) how they should arrive at these two differences without there being a mutual field where a man with a slightly more than 6 per cent risk situation might get it properly financed, I do not know.

COMMISSIONER GIBSON: This baffles me because while I can see the general problem which you are raising it seems to me that the difficulty of competition between a government agency and a private agency is perhaps exaggerated by the sort of thing you are suggesting. How do you draw a fair line in this area as to when the I.D.B. should do something and when it is something that is probably better done by other people? What are your criteria?

MR. BOWLES: The picture is even further confused, Mr. Gibson, by the existence of the Small Business Loans Act which adds yet another puddle, so to speak, which, if you stir the whole lot gets mixed up.

It would seem that one or more of these organizations is becoming superfluous. Perhaps the

Small Business Loans Legislation should have been directed more to widening the scope of the I.D.B. rather than bringing the chartered banks deeper into the term lending business. It is a very complex field and I do not presume to know the answer but I can say this with great conviction, that the businessman is concerned with the day-to-day or year-to-year operation of his business, not with his finance company or the I.D.B. and cannot make intelligent predictions as to how his capital requirements are going to be satisfied and because of this I think his business tends to suffer. He operates very much on a day-to-day basis and fortunately he is flexible and can do this.

COMMISSIONER GIBSON: He could hardly be worse off and he has more choice than he had before.

MR. BOWLES: This is true.

COMMISSIONER BROWN: Your point is it is the less creditworthy person who gets the cheaper rate?

MR. BOWLES: This has been the experience. I can point to several particular experiences of this. I cannot say that it is generally true, but this is one conclusion that you can draw from the situations I have seen.

COMMISSIONER MACKINTOSH: It may be very difficult for I.D.B. to interpret its criterion for reasonable rates?

MR. BOWLES: This is exactly the problem --

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COMMISSIONER MACKINTOSH: It may be very difficult for I.D.B. to interpret its criterion for reasonable rates?

MR. BOWLES: This is exactly the problem --

"available elsewhere under reasonable terms and conditions". This is always the problem.

COMMISSIONER GIBSON: That includes not just rates but amounts and terms?

MR. BOWLES: Yes.

COMMISSIONER BROWN: A suggestion was made this morning, which you probably heard, that this might be solved in part by having the I.D.B. interest payments be recognized as a return on equity and not available for taxes for income tax purposes.

MR. BOWLES: That idea would require further exploration before I would care to comment on it.

COMMISSIONER BROWN: I was going to ask you to comment on it. Just one thing in your brief that puzzled us and perhaps you can explain the point. It is page 2, subparagraph (4).

MR. BOWLES: Small manufacturers?

COMMISSIONER BROWN: Yes:

> "The small manufacturer needs better protection than is now provided in event of unscrupulous creditors' bankruptcy...."

MR. BOWLES: The samll manufacturer in my experience is a fairly unsophisticated individual. He is busy running his business on a day-to-day basis and is not too familiar with the law on finance and a number of other things. Too frequently their innocence in the field of credit has led them into the position where they have been

[illegible]

MR. BOWLES: Yes.

[illegible] might be solved in part by having the T.B.D. [illegible] payments be recognized as a [illegible]

MR. BOWLES: That idea would be [illegible] on it.

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left with substantial bad debts as a result of supplying goods to companies which were set up as nothing more than shells by some people who had no intention other than to milk these companies.

COMMISSIONER BROWN: That would be debtors' bankruptcy. This is creditors' bankruptcy.

MR. BOWLES: Yes, you are absolutely right.

COMMISSIONER BROWN: Because the other people can exist too.

MR. B OWLES: That was not what I meant.

THE CHAIRMAN: Other questions?

COMMISSIONER BROWN: The same thing comes up again, Mr. Chairman, on page 7, paragraph 22. I just wonder what you meant by:

> "Conversely, they are entitled to more non-financial considerations such as reductions in questionable income tax and bankruptcy policies and political patronage".

MR. BOWLES: This goes back to his lack of sophistication. He does not have, unfortunately, available to him the manpower that many large corporations have to unravel tax difficulties. He is only concerned with running his business and in so doing he tends to overlook the niceties of modern day business methods.

COMMISSIONER BROWN: Does not this go back to something basic that the problem of most small business is loss capital and that is caused by

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COMMISSIONER BROWN: Does not this go back to something basic that the problem of most small business is less capital and that is caused by

poor management? Isn't this an inherent factor in most of their problems?

MR. BOWLES: It is indeed. All I can ask is that they have the financial facility available to them to accelerate their growth through this period when they are most exposed. They cannot support professional staff perhaps to take care of these aspects of running a business and they are no longer a proprietorship or a major corporation. They are in this world between and it is a particularly difficult phase in all respects, not only financially but administratively as well.

COMMISSIONER BROWN: It is generally because of this that the private sector is unwilling to get into the picture?

MR. BOWLES: I would suspect this is true, yes. Nevertheless, I would contend it is desirable that they should if at all possible since themajor corporations once started out as these people are.

THE CHAIRMAN: Thank you very much, Mr. Bowles.

MR. BOWLES: Thank you, Mr. Chairman.

--- Adjournment.

Royal Commission
on
Banking and Finance

Hearings
held at
Montreal

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LAURENTIDE FINANCIAL CORPORATION LTD.

A SUBMISSION TO THE

ROYAL COMMISSION ON BANKING AND FINANCE

Appearing on behalf of Laurentide Financial Corporation Ltd.

Peter Paul Saunders — President

Andrew E. Saxton — Executive Vice President

May 7, 1962

INTRODUCTION AND SUMMARY

Laurentide Financial Corporation Ltd. is grateful for this opportunity to submit a Brief to the Royal Commission on Banking and Finance.

The finance industry, of which Laurentide is a part, has been established in Canada for over three decades and, in the course of its growth, has made a considerable contribution to the economic progress of this country. Laurentide commenced its operations only in the last third of this period, a time during which the greatest demands have been made on the industry to fulfill its economic function.

Since its inception in 1950, Laurentide has grown from a small local business into a widely spread corporation operating through more than 130 offices located across the breadth of Canada, along the Western coast of the United States and in the Bahamas. To-day Laurentide has more than 7,000 shareholders of which over 90% are Canadian citizens.

Laurentide's domestic and international activities have caused it to become increasingly cognizant of the importance of the role played by all members of the financial community throughout the world.

Canada's development, for example, has been assisted immeasurably by the efforts of the chartered banks, the insurance companies, the trust companies and, of course, such institutions as the Bank of Canada and the Industrial Development Bank. The very enviable reputation which Canada enjoys among nations is due, in no small part, to the stability of and the confidence in the financial system of which they are an integral part.

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[illegible] and Finance.

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Since its inception in 1950, Laurentide has grown from a [illegible] through more than 150 offices located across the breadth of Canada, along the Western coast of the United States and in the Bahamas. To-day Laurentide has more than 7,000 shareholders of which over 99% are Canadian citizens.

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As Canadians engaged in a business enterprise both at home and abroad, we are proud of this reputation, we benefit by it and we wish to guard against any deterioration which might possibly occur. If the facts presented in this Brief appear critical of certain practises, we hope they will be taken in the constructive spirit in which they are made and that, as comments which are meant to be constructive, they will be helpful to the Commission in arriving at conclusions and making recommendations which will further the interests of all Canadians.

Laurentide's recommendations can be separated into four groups.

The first group is of a general nature and refers to national monetary policy as it applies to the entire financial structure of Canada. In this area Laurentide recommends that the Dominion Government should be the only source of monetary policy in Canada and that it should consult with the finance industry in the course of developing policy. It is also recommended that monetary policy should be designed in such a manner that it encourages continually the lowest possible cost of funds, in the long run, to all users of credit in Canada. Monetary policy should not be negative in approach, and it should result in a national financial structure that is elastic and, therefore, capable of reacting positively at all times to necessary changes in policy. It is also suggested that those sections of monetary policy which are designed to subsidize should be reviewed frequently to ensure that they serve a continuing and justified need.

The second group of recommendations is presented for the purpose of improving the operating efficiency of the Sales Finance and Consumer Loan companies. Included is the suggestion that the Dominion Government should be the source

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The second group of recommendations is presented for the purpose of improving the operating efficiency of the Sales Finance and Consumer Loan companies. Included is the suggestion that the Dominion Government should be the source

of all policy affecting these two members of the financial community and that it act to prevent further legislation restricting the finance industry. The Government should act to develop a uniformity of existing legislation governing finance companies, including uniformity of disclosure laws throughout Canada. Such disclosure laws, to be effective, should apply to all suppliers of credit in Canada. It should act also to remove, or have removed, the legal requirement (where it exists) that lien registrations, to remain valid, must be renewed at specified intervals.

The third series of recommendations recognizes the need for, and is designed to maintain and improve competition among members of the financial community without compromising the sound basic principles upon which the Canadian financial system has been built and from which foundation it will continue to progress most effectively. In this area Laurentide recommends that the Dominion Government should undertake not to compete with private enterprise in any way and, therefore, that the Government should take immediate steps to place the responsibility for the administration of government guaranteed lending activities in the hands of those financial institutions whose normal business is the type of lending activity involved. In addition, the Government should require that all applicants for assistance from the Industrial Development Bank submit proof that needed funds cannot be obtained from normal sources of short and medium term funds, including the finance companies and, further, that all interest payable on government granted and guaranteed loans be classified as non-deductible for the purpose of computing income tax payable.

It is also recommended that the chartered banks be forced to comply with the intention and instructions of the

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act to develop a uniformity of existing legislation governing finance companies, including uniformity of disclosure laws [illegible] should apply to all suppliers of credit in Canada. It should act also to remove, or have removed, the legal requirement (where it exists) that lien registrations, to remain valid, must be renewed at specified intervals.

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It is also recommended that the chartered banks be [illegible] to comply with the intention and instructions of the

Bank Act, including Section 91, and that further sale or merger of chartered banks be prevented. It is suggested, in the interest of preserving liquidity, that the chartered banks lending activities would best be restricted to advancing funds on a demand basis only. If, on the other hand, this suggestion is not followed then it is recommended that the finance companies should be authorized to accept deposits.

Laurentide recommends, also, that credit unions be immediately classified as regular profit producing business operations and that, as such, they be subject to standard Canadian business registration and taxation responsibilities.

Finally, Laurentide presents two suggestions designed to increase Canadian business activity at home and abroad. They are, first, that the Dominion Government introduce accelerated depreciation schedules on capital equipment and, secondly, that Canada cancel withholding taxes on foreign owned corporations and commence negotiations for reciprocal action by those nations who presently have in effect double taxation treaties with Canada.

Respectfully submitted to the Royal Commission on Banking and Finance this 7th day of May, 1962.

Laurentide Financial Corporation Ltd.

Peter Paul Saunders

Peter Paul Saunders,
President.

BRIEF TO THE ROYAL COMMISSION ON BANKING AND FINANCE

PART 1 - THE INDUSTRY

1. The Briefs to be submitted by the Federated Council of Sales Finance Companies and the Canadian Consumer Loan Association review in detail the nature of the finance industry in Canada (acceptance and consumer loan) and its growth and structure.

2. However, it is well to note that the activities of Laurentide Financial Corporation Ltd. are not confined to Canada but are conducted in two other countries, the United States and the Bahamas, and will be expanded into other areas of the world.

3. The finance industry should be considered along the following lines:

(1) The function of a finance company is to facilitate the transfer of goods and services from producers to consumers.

(2) Its function is similar in all parts of the world.

(3) Its methods of operation are almost identical at comparable stages of the development of the industry in each individual area.

(4) Its total size presently is unknown but area comparisons can be estimated by referring to the following table.

Table 1

Country	Selected Consumer Credit Outstanding (in millions of dollars)	Per Capita (dollars)
Canada (Nov. 1961)	4,626	257
United States (Nov. 1961)	55,000	306
United Kingdom (Sept. 1961)	2,600	50
France (Dec. 1961)	450	10
Germany (June, 1961)	1,300	24
Australia (June, 1959)	789	79

4. The foregoing table is limited in scope because figures from those countries may not be fully comparable. However, they give a broad indication of the extent to which consumer credit is being used in these areas.

5. The structure of the lending industry in many countries differs somewhat from that in Canada. In the U.S., commercial banks are involved heavily in consumer financing. In Great Britain, commercial banks own or have interests in many of the finance companies but do not take part in direct consumer financing. In Germany, the major portion of consumer credit and acceptance volume is handled by commercial banks. In France, 75% of the business is handled by

finance companies. In Italy, the commercial banks are not active in the consumer credit field directly but do provide funds to finance companies that are either independently owned or are controlled by larger merchandizers and manufacturers such as Fiat.

6. In other areas the structure of the industry is still in the formative stages and does not lend itself to being categorized.

PART II - LAURENTIDE FINANCIAL CORPORATION LTD.

7. Laurentide Financial Corporation Ltd. is a Canadian owned diversified finance company whose basic policy calls for growth on a national and international scale. Certain broad financial characteristics of the company are:

(1) Laurentide to date has raised its equity capital on the Canadian market only.

(2) It is restricted in its ability to borrow its cash requirements in the areas in which certain of its wholly owned or controlled subsidiaries operate.

(3) It is faced with additional risks of exchange controls, devaluation, excess taxation and above normal government intervention. It is also a company carrying the label of "foreign competition" in its locations elsewhere than in Canada.

8. Other difficulties which Laurentide faces but which do not play a major role in this presentation are the matters of unfamiliar legislation in other countries, language barriers, proper local and international management controls and the like.

Laurentide's Purpose in Presenting a Brief to the Royal Commission on Banking and Finance

9. (1) To outline Laurentide's methods of operation.

(2) To comment on government monetary policy as it affects Laurentide's business activities.

(3) To comment on government monetary policy as it affects the business community in Canada.

(4) To recommend certain adjustments to government policy which, it is believed, will benefit the entire Canadian business community.

The Development of Laurentide

10. A review of Laurentide's operations may be helpful to the Commission in understanding the development of the company's thinking.

1950-1953

11. Laurentide entered the finance field in 1950 and immediately embarked upon a programme of discounting automobile sales acceptance paper in volume. By the end of 1952 the company had decided that automobile acceptance volume could be increased satisfactorily only if Laurentide was willing to provide wholesale accommodation as well as retail accommodation to dealers. By the end of 1953, wholesale finance arrangements were made available to automobile dealers and in that year Laurentide's Notes Receivable increased substantially. In July of 1953, Laurentide's second office was opened in Vernon, British Columbia.

1954-1955

12. By the end of 1955 further branches had been opened in other locations in British Columbia, Alberta, Manitoba and Ontario. The Toronto and Windsor, Ontario, branches were opened because of the competitive need to have purchasing offices for dealers automobile inventory located adjacent to the major automobile manufacturing facilities in Canada.

13. Until the middle part of 1954 the company's acceptances were composed almost entirely of automobile paper. At that time, in order to expedite company growth, it was decided that Laurentide should accept appliance paper as well. During 1955 Laurentide entered the industrial equipment sales acceptance business in a limited way. In the latter part of the same year credit restrictions were imposed on the finance companies by the banks.

January 1956 to June 1957

14. Laurentide's business continued to grow in a satisfactory manner until the full effect of the restrictions was realized by Laurentide in March 1956. However, restrictions did not affect all finance companies equally because of the substantial surpluses that were available for use by some. As a result Laurentide was forced to keep its competitive position in the industry in mind at the same time that it was co-operating with the government. Laurentide therefore, had to attempt to smooth the transition from a policy of forced growth to one of a sustained level of business so as to avoid imposing inequities on its customers while, at the same time, complying with the new regulations. The success that Laur-

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entide had in buffering the effect of the restrictions on its customers was a result partially of the decision that was made to sell its appliance business outstandings so that it could concentrate entirely on improving the service it was rendering to automobile dealers. It was not until late in 1956, when restrictions began to ease, that Laurentide was able to renew its interest in developing the appliance business once again. It was also during the latter part of 1956 that Laurentide, on a limited scale, entered into the field of lending funds directly to commercial users.

15. The continuing demand for additional funds by dealers and customers as well as the continuation of increases in costs of funds used by Laurentide resulted in a decision that the company should take specific steps to secure future availability of funds. As a result, 98.6% of the voting control of the company was sold to Power Corporation of Canada Ltd., a closed end holding and investment company.

16. In March of 1957, the Company acquired 87% of the common shares outstanding of Laurentide Acceptance Corporation Ltd., an automobile and appliance sales acceptance firm operating in the Province of Quebec.

July 1, 1957- June 30, 1958

17. The year was one of inventory reduction and reduced sales by automobile and other durable goods dealers. However, Company growth was maintained because Laurentide was able to increase effectively the number of dealers in its portfolio.

18. During the last six months of 1957, Laurentide expanded its underwriting group in an effort to further ensure a continuous supply of funds. Interest rates to the company continued to climb during the first part of this period but were reduced in early 1958. Laurentide was also able to inject even further reductions in its money costs during the period as a result of its efforts, started in early 1956, to obtain the bulk of its borrowed funds from the short term market. Competitive pressure among finance companies resulted in substantial reductions in inventory financing costs to dealers by those companies and Laurentide, to remain

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18. During the last six months of 1957 Laurentide expanded its underwriting group in an effort to further ensure a continuing supply of funds. Interest rates to the company continued to climb during the first part of this period but were reduced in early 1958. Laurentide was also able to effect small reductions in its money costs during the period as a result of its efforts, started in early 1958, to obtain the bulk of its borrowed funds from the short term market. Competitive pressure among finance com- [illegible]

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competitive, had to follow the same pattern. Charges to the consumer were also lowered to help encourage volume but this did not effect any appreciable increase in sales.

July 1, 1958 - June 30, 1959

19. Dealers inventory requirements increased during the early part of this period in the expectation of sales increases during the latter part of 1958. However, dealer retail sales volume did not grow and the company's automobile wholesale/retail ratios were not as favourable as had been anticipated. The resulting lag in profits was partially compensated for by the fact that Laurentide's industrial equipment business (which was being developed without the need for wholesale investment) was increasing and therefore contributing to a better over-all investment ratio. At the same time Laurentide was soliciting and starting to obtain other types of acceptance business from such sources as aircraft and boat dealers as well as commercial fixture and in-plant equipment suppliers. Laurentide was also increasing its interest in completing a number of larger direct loans to industry.

20. The first quarter of 1959 brought with it an increase in money costs to Laurentide and also a very noticeable increase in competition from the Credit Unions and the Chartered Banks. The second quarter of the same year was a period during which consumer demand increased and Laurentide's retail sales finance volume improved noticeably.

July 1, 1959 - June 30, 1960

21. The latter half of 1959 was a very active sales period during which Laurentide tried its best to service its customers to the maximum. Competitors from other fields continued to increase their sales efforts in consumer lending but Laurentide did not notice the effect immediately because it was covered by a buoyant market. The Credit Unions made very great strides in 1959 and 1960 with gains in total loans including mortgage credit of $135 million and $72 million. In the same two years, personal loans of the Chartered Banks increased $300 million. It was during

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this period that Laurentide formed, in selected areas in Canada, its first separate branches specializing in Industrial Financing.

22. In the month of May, 1960, the Commonwealth Industrial Bank Ltd. was formed in Nassau, Bahamas, for the purpose of conducting a fully integrated finance operation in that area.

23. In the same month Royal Assent was given to an Act incorporating Laurentide Finance Company, a wholly owned subsidiary of Laurentide Financial Corporation Ltd. This subsidiary was formed to conduct a fully integrated personal loan business throughout Canada. This was the first incorporation of its type in Canada in twenty-one years.

24. The increase in activity which took place during this period brought with it a return of tight money which, in turn, sharpened the awareness by the company that additional sources of funds had to be secured to assure continuity of supply. A result of the new restrictions at this time was that Laurentide's lines of credit were cut by the banks from $30 million to $19 million. Immediately after this was done the banks implemented further reductions in credit lines on a daily basis by applying all deposits to its bank loans, at the same time revising the available credit limit on a daily basis to an amount equal to the lower balance outstanding. During the final months of 1959 and the early part of 1960, Laurentide's efforts had to be directed towards balancing the restraining efforts of monetary policy with the demand for money by customers. These efforts were complicated by the increase in competition from outside the industry to service Laurentide's customers.

25. During this period, as part of the expansion of its sources of funds, Laurentide successfully completed the first registration of a Canadian acceptance company with the S.E.C. in Washington, D.C. and, following immediately, the sale in the U.S. of a $15 million, 20 year secured bond issue.

26. In addition, Laurentide, as a matter of policy, started to build its liquid reserve to the point that it would act as a cushion

against the possibility of future tight money periods.

July 1, 1960- June 30, 1961

27. In this period Laurentide's Canadian operations experienced the full impact of a business recession which began in the first quarter of 1960, and more intensified competition from outside the industry. Foremost was the fact that the imposition of restrictive monetary pressure by the authorities in 1959-1960 had been very sudden and, as a result, severe in its effects on Laurentide and apparently on the rest of the industry. However, the banks were not similarly affected, in that they were able to expand and solidify their position in the commercial credit field.

28. This period also saw an effort on the part of the government to encourage business expansion by increasing the lending activities of the Industrial Development Bank and, also, by introducing a government guaranteed Small Business Loans plan through the chartered banks.

29. In June, 1961 the chartered banks reduced the prime rate from 5 3/4 to 5 1/2% to industry but refused to grant even the prime finance companies anything lower than a 5 3/4% rate.

30. For some time various officials, including the Governor of the Bank of Canada, had been publicly criticizing the finance industry. However, no attempts were made by the authorities either to consult with the industry on monetary policy or to utilize its broad facilities to implement government policy. In effect, the finance industry found itself in the position that its primary sources of information were the newspapers and local bank branch managers and that it was forced to second-guess the Canadian monetary authorities. The policy of the Chartered Banks, of course, precluded Laurentide from any relief in money costs from that source.

31. At this time Laurentide's need for reserve funds caused it to place two debenture issues in Canada at yields to the buyers in excess of 6.5%, two preferred share issues yielding 6.32% and

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31. At this time Laurentide's need for resilience funds caused it to place two debenture issues in Canada at yields to the buyers in excess of 6.75%, two preferred share issues yielding [illegible] and

a convertible second preferred share issue yielding 5.26% plus common share increment on conversion. Short term money rates remained high but it was deemed advisable to continue actively to solicit funds from this source. Long term funds in the amount of $11 million were raised in the United States for periods from 1 to 20 years at rates up to 5 7/8% per annum. The funds raised were put to use in Canada in pressing diversification and expansion of operations into the fields of commercial lending, leasing and the consumer loan business. Preferred share money was used in the purchase of Mercantile Acceptance Corporation of California in the U.S. and some of the funds raised during this period were diverted into the Bahamas for use by Laurentide's operations there.

32. Of significant importance is the fact that Laurentide had raised additional equity for the purpose of improving its capital to debt ratios.

33, The results of competition from other fields during this period are best illustrated by the fact that from August 1960 to June 30, 1961, the retail outstandings of reporting sales acceptance and consumer loan companies in Canada decreased by $15 million while the personal loan outstandings of the chartered banks increased $155 million.

34. Evidencing the effect of I.D.B. competition is the fact that, while commercial and industrial sales finance business outstandings increased by approximately $10 million from June 1960 to June 1961, the I.D.B.'s outstanding loans plus undistributed authorizations increased by $25 million or about 21%. Also, in the first 6 months of 1961, loans oustanding by the chartered banks under the Small Business Loan Act grew from zero to more than $10 million.

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55. The credit unions continued their sales efforts. By the end of 1960 total credit union loans outstanding were in

excess of $804 million including mortgage loans.

36. This was a period when many of the proven sales methods that had been used by the acceptance and loan companies in the U.S. and Canada were utilized by the chartered banks and the Industrial Development Bank in their respective fields.

37. In the meantime, Laurentide attempted to improve its market penetration with the aid of the following steps:

- A complete Divisional and Regional re-organization

- Laurentide introduced the first advertising campaign in its Canadian history and initiated a sustained advertising programme.
- Laurentide formed a new department responsible for business development in the commercial fields.
- Plans were finalized to further expand the company on an international basis.
- New finance plans were developed for introduction on an experimental basis in Canada as the opportunities to test such plans made themselves available.

38. A major step in Laurentide's programme of diversification and expansion was achieved with the acquisition of Mercantile Acceptance, a thirty-seven year old company operating in California and Oregon which, in spite of its name, is primarily a consumer loan company.

July 1,1961 to date

39. The latest period has been one in which the progress of the company, as a whole, has been favourable but during which concern has developed with regard to Laurentide's potential growth in Canada. The concern expressed is a result of the development of competition from outside the industry which, for the most part, has been encouraged by legislation favouring the "outside competitors" and, in some cases, by the injection of government funds and/or guarantees.

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[illegible]

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40. This new and artificially induced competition has acted

only to divert business activity away from the area of free competition. This has affected Laurentide's operating policy in the following ways:

(1) Laurentide has had to accelerate its research in foreign markets with a view to establishing early footholds in those markets.

(2) Expansion programmes in foreign markets in which Laurentide is already operating have had to be aggressively promoted.

During this period the chartered banks entered the short term money market as borrowers, paying interest on short term funds substantially in excess of the interest being paid on savings deposits.

41. Finally, in October of 1961, following the establishment of the Royal Commission on Banking and Finance, the bank rate to Laurentide was reduced to 5 1/2% per annum, the rate at which other industries had been obtaining bank funds for the previous five months.

Special Considerations Involved in the Financing of Laurentide

42. Because of its international character, Laurentide has encountered a number of unique elements involved in acquiring operating funds. The way in which its rapid growth has followed so closely its date of incorporation has added certain problems to this phase of its operations.

(1) Laurentide is the first Canadian finance company to become international in its operations even though it is only in its twelfth year of operation.

(2) Even though Laurentide is international in scope, its equity funds, whether common or preferred, have been and continue to be raised in Canada.

(3) Although all equity funds have been raised in Canada, it is necessary that credit sources be made available to Laurentide in the areas in which Laurentide operates.

43. It is anticipated that foreign registration of shares and the raising

of funds in foreign markets will be justified at some time in the future.

44. In acquiring new companies, Laurentide has inherited, in some cases, new sources of funds and, in others, has broadened its sources.

45. The bank lines of all subsidiaries, with the exception of Laurentide Acceptance Corporation Ltd. and Laurentide Finance of California (formerly Mercantile) have been taken over by the parent company. In the case of Mercantile, Laurentide has actively engaged in expanding its U.S. bank lines and will continue to do so for some time to come.

Agreements Affecting Laurentide's Borrowing Policy

46. The trust deeds under which Laurentide operates, and which are determined by Laurentide's major creditors, impose, among others, the following restrictions:

(1) Excluded from consideration as part of the capital base of Laurentide, from which are developed the approved borrowing ratios, will be the investment in shares of all subsidiary companies (with the exception of one) who have outside debt of their own.

(2) Automatic restriction resulting from the fact that the traditional lending formulae employed by institutions in Canada and the United States are different. At times there is an apparent conflict developed in trying to satisfy the two criteria of lending. The result is a placing of restriction upon restriction. Trust deed revisions of a nature more complementary to Laurentide's methods of operation will be possible after a period of time. However, immediate revision is not anticipated because of the fact that the development of a programme of international operations by a Canadian-owned finance company is so new. The usual sources available to finance companies are not prepared to depart to any great extent from the rules of credit that have been established over many years. While adherence to the present system is appreciated, it does restrict Laurentide's ability to move as freely as it would like. Restrictions would

not apply as severely were Laurentide's home in the United States, for example, where the available supply of equity funds is much greater than in Canada and where the conditions of borrowing might be more liberal.

Laurentide's Financial Structure

47. Reference should be made to the Company's 1961 Annual Report (Appendix A) and to Appendix D, which is a detailed review of the development of Laurentide's financial structure.

48. The purpose of Table 2 following is to indicate the timing and certain details surrounding directly placed private and public issues subsequent to the date of Laurentide's registration as a public company.

Table 2

Date	Total Amount	Number	Type	Purchase Price	Normal Yield
March, 1954	75,000	7,500	Cumulative Redeemable Convertible Sinking Fund Preferred (convertible quarterly for one year at market)	10.00	6%
June, 1954	75,000	7,500	Cumulative Redeemable Convertible Sinking Fund Preferred (convertible quarterly for one year at market)	10.00	6%
January, 1955	1,000,000		Series "A" Collateral Trust Notes		market
February, 1955	400,000		Convertible Sinking Fund Debentures Series A (100 shares per $1,000 to Feb/58, 80 shares per $1,000 to Feb/61, 66 shares per $1,000 to Feb/64)	500.00 1,000.00	5½%
October, 1955		12,000	$2.50 Cumulative Redeemable Convertible Preferred Shares (4 shares to Sept.30/56, 3½ shares to Sept.30/57, 3 shares to Sept.30/62)	49.00	5.10%
February, 1956	1,000,000		5½ Sinking Fund Debentures Series B with stock purchase warrants (20 shares per $1,000 at 12.00 to June 1/56, 20 shares per $1,000 at 13.25 to June 1/57, 20 shares per $1,000 at 15.50 to June 1/59, 20 shares per $1,000 at 18.00 to June 1/61)	100.00	5½%
February, 1956	1,000,000		Series "B" Collateral Trust Notes	25,000.00 and up	market
April, 1956		56,000	Class A (common shares)	12.50	
September, 1956	1,000,000		Series "C" Collateral Trust Notes		market
September, 1956	As required and secured		Series "D" Collateral Trust Notes		market
March, 1957	1,000,000		5½% Sinking Fund Debentures Series C with stock purchase warrants (20 shares per $1,000 at 11.00 to March 15/59, 20 shares per $1,000 at 12.50 to March 15/61, 20 shares per $1,000 at 15.00 to March 15/63		5½% plus value of warrants
April, 1958	1,750,000		$1.40 Series Cumulative Redeemable Preferred Shares (Par Value $25.00)	30.00 per unit	5.6% on par value of preference plus value & yield on common
	and	70,000	Class A (common shares) offered in units		
October, 1958	As required and secured		Series "E" Collateral Trust Notes		market
June, 1959	3,500,000		6¼% Sinking Fund Debentures Series Three with stock purchase warrants (25 Class A shares per $1,000 at 12.00 to June 30/62, 25 Class A shares per $1,000 at 15.00 to June 30/65, 25 Class A shares per $1,000 at 18.00 to June 30/68)	99.00	6.34%
October, 1959			Series "E" Collateral Trust Notes		market
February, 1960	15,000,000 (U.S.)		6½% 20 year Collateral Trust Bonds maturing February 1, 1980		6½%
August, 1960	2,000,000	100,000	$1.25 Series Cumulative Redeemable Preferred Shares	19.75	6.32%
September, 1960	4,000,000		6½% Sinking Fund Debentures Series Four	100.00	6½%
March, 1961	3,000,000		6½% Sinking Fund Debentures Series Five	99.00	6.59%
March, 1961	2,000,000		$1,25 Series Cumulative Redeemable Preferred Shares	19.75	6.32%
May, 1961			$2.00 Cumulative Convertible Redeemable Secondary Preferred shares (2 Class A shares to June 30/66, 2 Class A shares at $10 additional to June 30/71)	38.00	5.26% plus value of conversion to common.

* The number of shares, wherever they have been shown, has not been adjusted for sub-divisions of the Class A and Class B shares, when sub-division has occurred after the original issuing date.

Common Shares

49. It had been the original intention that Laurentide should be a closely held company. As a result the capital base was first comprised of common shares and participating preferred shares, the former voting and the latter non-voting. When the Company was made public in 1954 the common became Class B voting shares and the participating preferred became Class A non-voting. The distribution of voting shares was carefully controlled, a position that has been maintained to date.

50. Non-voting common has been issued directly to the public only twice in the history of Laurentide to date. The basic reason is that equity financing has been considered to be the most expensive method of raising funds. Other reasons will become evident in the review of Laurentide's alternative methods of financing that follows.

Preferred Shares

51. Generally, the derivation of funds through the medium of preference shares has not been a popular method in Canada. However, this approach has been utilized successfully by Laurentide.

52. First, in 1954, Laurentide's history of earnings was not of long enough duration to attract a strong segment of the market at a reasonable price if common shares were offered. Therefore Laurentide decided to market shares using the attraction of a yield of 6% (which was high at that time) attached to a preferred shares offer with conversion privileges. This approach was repeated in 1955 with the issue of 12,000 $2.50 convertible preferred shares.

53. The 1958 preferred share issue was the result of a need for additional funds at a time when the demand was very high and the market was responding effectively only to issues providing a guaranteed yield with the opportunity of a relatively short term capital gain.

54. Preferred shares issued in 1960 and in February of 1961 were presented at a time when the Canadian investor was looking for a favourable yield and the market did not require additional incentives to sell the issue. The $2.00 convertible second preferreds, issued in June 1961

were offered as rights to the Class A and Class B shareholders in order to provide them with continued equity at attractive yields.

Sinking Fund Debentures

55. The method of financing by way of sinking fund debentures was originally chosen by Laurentide in 1955 as a way of attracting additional unsecured funds but, because of the limited earnings history of the company, it was necessary that an extra inducement become part of the attraction to the investor. Thus the opportunity to convert the debentures to common stock was granted. Similar reasoning was applied to the 5 1/2% sinking fund debenture issue of 1956 to which warrants were attached. This particular issue was created at a time of restricted credit.

56. The 6 1/4% sinking fund debenture issue of June 1959 was planned for a market that was faced with a heavy demand for funds and, as in the case of the preferred share issue of 1958, this series of debentures was made more attractive by injecting a capital gain potential.

57. Sinking fund debentures, series four (August 1960) and five (February 1961) were presented when Laurentide's credit rating had improved and, as a result, were sold on a straight yield basis.

58. An important feature of the sinking fund debenture series is that they were unsecured issues. The attraction to the investor was the long term provision allowing the investor to hedge against the possibility of rate reductions.

59. To the Company, the series were attractive, within limits, as they provided the security of long term funds as a hedge against a variable money supply.

Secured Debt

(a) Bank Funds

60. Laurentide's start was made possible to a great extent through the availability of bank funds on a fully guaranteed basis. As the company grew, its bank lines in Canada increased very favourably. In March of 1956 bank lines were frozen at the level established and, as indicated earlier, it became necessary for Laurentide to look more aggressively

to the Class A and Class B ...

continued equity at attractive yields.

Debentures

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59. To the Company, the series were attractive, within limits, as they provided the security of long term funds as a hedge against a

to increasing its capital base, to enter the short term money market and to maintain a constant vigil on whether its future needs would be better secured by longer term funds.

61. Bank credit resumed a role almost as important during 1957 as it had been in 1956 and earlier, but by this time the bank rate to Laurentide had increased to a range of 5 1/2% to 5 3/4%. Bank rates decreased during 1958 but were increased again in 1959 to 5 3/4% even though the prime rate to individual borrowers and to companies in other industries was reduced to a low of 5 1/2%.

62. Thus it was obvious to Laurentide that the only way in which the company was going to be able to reduce its money costs in relation to the market was to continue to make full use of the short term market. Lower costs were absolutely necessary because of the declining margin of profit available to Laurentide from its day-to-day business transacted with its customers and because the company, as a matter of policy, had been striving to lend to its customers at the lowest possible rate. The increase in competition among finance companies which developed in 1959 brought about a reduction in retail rates by Laurentide to its customers,but, without flexibility in bank rates, the only compensating reduction in money costs was from the short term market and through an increase in leverage of capital within the limits of the various trust agreements.

63. Finally, in October 1961, the banks reduced their lending rate to 5 1/2% (the prime rate which had been available to other industries since June 1961). The reason for the high bank rate from June to October 1961 had been explained at the time as being the result of a decision reached by all banks in Canada that finance companies were poor risks. The reduction in October has never been explained by the banks.

64. Laurentide's experience has been that the bank rate has not fluctuated with the supply of and demand for money and that where fluctuation did occur it was not in apparent relation to the bank's money costs, the quality of Laurentide's business or the quantity of its business. In fact, banks have all but frozen credit to Laurentide, while apparently making

funds available to individual borrowers and to other industries, including manufacturer owned finance companies.

65. It is interesting to note that Laurentide's bank borrowings are secured by the same type of collateral trust notes which are used to secure its short term borrowings which, of course, are at a lower rate of interest. Thus, the security offered is the same to both types of lenders even though the rate is markedly different.

66. Finally, in March of 1962, the banks amended their approach and advised Laurentide that they would guarantee a maximum line of conditional credit (to be negotiated) for 90 day periods subject to Laurentide being willing to pay 1/2 of 1% per annum for unused credits.

67. Laurentide refused to consider this programme until April, when it was offered an 180 day protection. The reason that the company has given consideration to the terms is that it is anxious to avoid the effects of violent fluctuation in the supply of funds.

(b) Short Term Borrowings

68. The short term money market in the United States is one of considerable maturity but Canada's short term money market did not begin to assume a definite personality until 1955. Laurentide entered this market in the same year because of its need for less expensive funds in volume. At first the results were not encouraging because of the company's youthfulness. However, as earnings have grown and the company's name has become more familiar, the volume of short term funds available to Laurentide has increased quite satisfactorily.

69. Because of the lower cost and the more immediate reaction of rates to supply and demand, short term funds are, in some ways, more attractive than long term funds to Laurentide and they will continue to play an important role in the company's borrowing programme.

70. Generally, the short term market, because it reacts so positively to seasonal and other shifts in the business economy, has acted not only as a guide with regard to Laurentide's fiscal planning, but has acted as a reasonable buffer in transition periods. The bulk of Laurentide's funds

comes from the short term market.

(c) Long Term Borrowings

71. The market for longer term funds has been considered by Laurentide, basically, to be a means of building reserves against a possible reduction in the supply of short term funds. The equity market is approached only as the need for a broader base upon which secured funds can be borrowed becomes evident. Laurentide's long term borrowings are secured by the same type of collateral trust notes as are used to secure its short term borrowings.

(d) Retained Earnings

72. Comment on retained earnings by Laurentide must be confined to the fact that it is Laurentide's desire to build such a surplus. The reason for it being lower than average involves the age of the company.

Effect of the Availability and Cost of Money on Laurentide's Growth

73. Growth was restricted in 1951-52 and 1955-56 because of a lack of funds. In 1959-60 growth was not restricted in the true sense of the word but it was retarded in Canada as a result of a combination of:

(1) The higher cost of funds

(2) The unusual competitive position of the industry.

74. The fact is that Laurentide, as others, can obtain all the funds needed if it is willing to pay the price. The factor retarding growth has been the lower profits available due to the fact that the floor under the cost of finance company funds has been frozen while the rate at which Laurentide can lend its funds to others has dropped considerably; that is, the profit margin has shrunk.

75. The reason that competition is unusual is that the favourable publicity given government and chartered bank policy in action has created an undesirable and distorted image of the finance company in the eyes of the public in Canada.

76. The same has not happened in the United States, the Bahamas, France or in many other areas. In Great Britain, on the other hand, the image of both the finance and banking industries deteriorated when

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Comments on the Implications of Obtaining Funds from Foreign Sources

77. Laurentide does have some experience in the international money markets and would like to comment as follows:

> If the purpose for which Laurentide wishes to borrow funds abroad is Canadian usage, generally the cost is higher. Among the reasons are the effects of the 15% withholding tax, the reluctance of foreign lenders to lend in Canadian funds and, thirdly, the expenses of conforming to foreign legislation and documentation requirements. Therefore, borrowing abroad, under certain conditions, does not provide Laurentide with anything more than temporary respite during which time it can adjust its domestic finance programme to coincide with domestic conditions. This was proven during the period March 1959 to approximately March 1960. In the month of November, 1959, short term rates by U.S. sources to Canadian finance companies rose as high as 6 1/2% per annum. Naturally it was impossible for Laurentide to maintain such a rate over an extended period of time as the retail rates available to Laurentide made such costs prohibitive except to buy adjustment time. On the other hand, there are times when the borrowing abroad of both long and short term funds is advantageous. An example is the borrowing of foreign funds against foreign assets to support foreign owned operations.

78. It has been Laurentide's policy to borrow long term funds abroad from time to time for the following reasons:

(1) In anticipation of undertaking a full scale business venture in that market.

(2) To familiarize that market with Laurentide in anticipation of emergency needs resulting from violently shifting mar-

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(2) To familiarize that market with Laurentide in anticipation of emergency needs resulting from violently shifting mar-

kets in Canada and areas other than the one from which the funds are being obtained.

79. In the past Laurentide, directly and through its subsidiaries, has obtained funds from such areas as the U.S., England, France and Switzerland for the above reasons.

Laurentide's Sensitivity to Fluctuations in the Money Market and Government Monetary Policy

80. Laurentide has always shown a high degree of sensitivity to government monetary policy and fluctuations in the money market. The degree of sensitivity is illustrated by the following review of specific time periods.

1951-1952 81. Credit regulations imposed by the government commencing in November 1950 and continuing until May 1952 were very specific in effect. The regulations specified minimum down payments, maximum repayment terms and were supported by Bank of Canada regulations freezing bank credits. The business volume done by Laurentide, at that time, depended upon the ability of the purchasing public to assume and retire purchase credit obligations within government specified terms and periods of time. Even though the purchasing public may have wished to over-obligate itself, the positive restriction on the provision of further funds by the banks to finance companies had the desired effect of adequately minimizing the growth of consumer credit through the independently owned sales finance companies, including Laurentide.

82. An example of the estimated effect on the entire industry is afforded by the following table:

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Table 3

Year	Actual Domestic Retail Sales Volume of New Cars (No. of Vehicles)	Estimated Domestic Retail Sales Volume of New Cars had Regulations not been imposed (No. of Vehicles)
1948	221,300	*221,300
1949	286,341	*286,341
1950	429,695	*429,695
1951	385,648	430,000
1952	400,777	435,000
1953	462,000	440,000
1954	382,628	440,000
1955	465,678	460,000
1956	499,921	*499,921

*Actual Sales Figures

83. The estimates for 1951 and 1952 are based on an estimate of the absorption ability of a market willing to buy had the finance companies been allowed to finance the consumer demand. The estimates of 1953, 1954 and 1955 are based on the assumption that, had the demand of 1951, 1952 been satisfied to a greater extent than it was in fact, the market would have leveled for approximately two years and then started to rise again as demand accelerated in 1955 and 1956.

84. Laurentide's notes receivable did grow during this period but the growth was insignificant due to the size of the company.

1956

85. In late 1955 credit regulations were imposed with a capping of credit from the banks based on previously established lines of credit. This time, while the restrictions imposed were severe, they did not affect all finance companies equally.

86. Laurentide's operations were restricted by these regulations as it did not have surplus funds with which to hedge the effect of a sudden shortage of funds. As a result, Laurentide instituted an internal cash control programme whereby each of its branches could grant new credit each day only in an amount equal to its collections of the same day. Laurentide's reaction to

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*[illegible]

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the 1956 credit programme was much more in line with government objectives than the reaction of most of the other finance companies who had liquid cash reserves to work with for a short period of time.

87. Certain finance companies owned by manufacturers and merchandising firms did not have the same degree of difficulty since, even though the finance companies bank credit may have been frozen, the parent was able to borrow from the banks and from other sources. Funds so obtained were capable of being made available to the finance subsidiary by the parent.

1959-1960 88. Credit restrictions were imposed by a method of freezing bank lines. This resulted in higher money costs to the company but its ability to pass these costs on to the customer was limited because retail rates were subjected, in turn, to downward pressure as a result of increased competition from lower cost credit plans including those advertised by some banks. While it was the government's desire to slow down over-all credit growth, it cannot be said, realistically, that this was achieved.

89. True, Laurentide's credit growth rate decreased in Canada as did that of the industry but the growth of credit outstandings of other suppliers more than made up for the decrease experienced by the finance companies. For example:

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Table 4

Year	Total Credit with Sales Finance and Consumer Loan Companies excluding Commercial Loans		Personal Loans by Chartered Banks		Loans by Credit Unions		Bank Loans Outstanding to Finance Companies
	Outstanding	Change	Outstanding	Change	Outstanding	Change	
1957	$1,142		$421		$555		$281
1958	1,169	+ $27	553	+ $132	596	+ $41	352
1959	1,290	+ 121	719	+ 166	731	+ 135	409
1960	1,377	+ 87	857	+ 138	804	+ 73	371
1961	1,341	- 36	1,030	+ 173	not available		247

Note: All figures are in millions of dollars.

Laurentide's Competition

90. A detailed review of Laurentide's competition will be covered in two sections of this brief. Comments made in this section will be confined to observations on competition from other Sales Finance Companies and Consumer Loan Companies and on observations of unique and/or special areas of competitive advantages available to those competitors who are not classified as Sales Finance or Consumer Loan companies.

91. The other section in which competition will be covered is in Part III of the Brief in which Laurentide outlines its specific recommendations to the Royal Commission. The comments on competition contained in Part III are basically with regard to those areas of competition that involve basic issues in the monetary policy of the country.

92. Basically competition originates from two areas. The first area is other sales finance and consumer loan companies. This is a natural but fierce type of competition which Laurentide meets on a daily basis and which is a standard for the industry. A detailed review of the methods of competition within the industry will be covered, in all probability, in the Briefs to be submitted by the Federated Council of Sales Finance Companies and the Canadian Consumer Loan Association.

93. The second area of competition is from outside of the industry and can be identified as competition from:

(1) Banks

(2) Credit Unions

(3) Government agencies and government guaranteed financial assistance programmes.

94. Laurentide's observations on the competitors referred to are as follow:

(1) Credit Unions Credit Unions have provided very severe competition in Canada over the past few years. Details of the competitive practises of the Credit Unions will be dealt with in Part III of the Brief. However, an idea of the size and growth pattern of the industry can be gained by referring to Appendix E.

(2) Industrial Development Bank The Industrial Development Bank has competed strongly with the Sales Finance companies for the past two years in the Business Loan field. A detailed review of I.D.B. competitive practises will be found in Part III of this Brief.

(3) The Chartered Banks The chartered banks have become the most aggressive competitors of the sales finance and consumer loan industry in recent years. While at least one of the banks has been active in providing personal instalment loan credit for many years, the outstanding balances of the banks "all other personal loans" amounted to $308 million at the end of 1953 and have since increased to $553 million at the end of 1958 and $1,030 million at the end of 1961. Over the years the chartered banks have built a well-deserved reputation for integrity in all of their practises, including advertising. It is on this reputation that they have capitalized, in the course of expanding in the personal instalment loan business, by allowing the public to gain the impression that this credit is being made available at an interest rate of 6% per annum.

95. Some banks started lending at higher than the legal 6% maximum rate in 1954. Subsequent to 1954 others tested the same practise and, by 1959, most chartered banks had gained a great deal of experience in the personal loan field. Even though the cost to indiv-

idual borrowers was approximately 1% per month on the oustanding balance, the banks advertised only "low interest rate" or "6% loans". These claims are misleading and play upon the concept of bank rates developed by the public over a period of years. However, the method attracted a great deal of business. Even to-day chartered banks do not advertise true per annum rates in spite of the fact that, historically, disclosure of true interest rate has been one of their strong selling points to the public.

96. In considering the effect of the sales efforts of the banks on the community at large, it is well to consider certain operating advantages available to the banks as a result of their unique position of privilege in Canada.

97. First, the banks have frequent personal contact with a very high percentage of their customers which provides the opportunity of soliciting business directly. In addition the banker has available to him, by the very nature of his business, a very complete knowledge of the affairs of his depositors. This fact became very evident to Laurentide who, since early in its history, had provided its customers with the privilege of paying their accounts through any branch in Canada of one of the major banks. This privilege had to be discontinued in 1960 when it was discovered that certain branches of the bank involved were approaching those customers who were making payments to Laurentide and suggesting that they pay out their Laurentide advance with a lower cost loan from the bank. Laurentide has been experiencing similar competition from other banks, such solicitation oftentime resulting from the evidence of cheques drawn on personal and business accounts in favour of Laurentide. The issuing of cheques by depositors to a finance company acts as sure identification of a prospective customer for a bank loan.

98. In many cases the banks have solicited in this manner only those customers who have proven their credit worthiness with the finance company.

[illegible]

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99. A specific example of another method used by the banks was provided Laurentide during the month of March 1962, when the Laurentide Purchase Credit branch office in Edmonton, on receipt of a conditional sales contract from an automobile dealer, asked for a bank report on the purchaser of the vehicle from the Grande Prairie branch of a major bank. The branch of the bank immediately solicited the vehicle purchaser, approved and made a loan in the amount needed by him to pay the balance owing on the unit. After finalizing the loan, the bank submitted the requested bank report to Laurentide and, in addition, charged Laurentide a fee for the report submitted.

100. The foregoing is an example of the inability of the chartered banks to maintain a position of business neutrality. In this case, the information which the bank used as a guide in soliciting a new loan was material that had been submitted in confidence to the bank and that previously would have been classified by the bank as information entrusted to the institution with the expectation that the information directly submitted and implied was, in fact, the property of the finance company.

101. Secondly, the banks have extensive advertising power. In this area, competition has been very severe because of (a) the vast quantities of dollars that banks are able to pour into advertising and (b) because of the fact that point of sale advertising has a high degree of effectiveness. Again, reference should be made to the fact that the 8 chartered banks have over 4,500 branches throughout Canada, all of which have a very high foot traffic count. Thus a good portion of the banks advertising cannot be avoided by a major portion of the Canadian borrowing public.

102. A third point is the fact that the strength in the banks sales effort lies in the product they have to sell - lower cost loans. While no clear cut comparison can be made between the cost of personal instalment loans available from chartered banks and the cost of credit available from the finance industry, the following factors should be considered in reconciling the lower rates on bank credit in comparison to those charged by the finance industry:

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(1) Allowing for the fact that directly comparable data are not available, the operating expenses of a finance company such as Laurentide appear to be in the same range as those of chartered banks. Thus, for instance, the ratio of Laurentide's operating expenses to notes receivable outstanding (at year end) has averaged 4.3% in the last 5 years compared to an average of 5.0% in the ratio of chartered bank operating expenses to loans outstanding in the same period.

A more detailed allocation of operating costs to the credit granting activities of various finance institutions and intermediaries would probably show that such costs fall within a narrow range. It is not unrealistic to assume that efficient private, profit-making institutions should show a similarity in credit handling costs, and Laurentide submits that in this respect its method of operation is as efficient as those of the chartered banks.

(2) There is a considerable difference in the cost of funds used by chartered banks and finance companies. While Laurentide's interest expenses as a percentage of note receivable and investments had averaged 3.4% in the last 5 years, the cost of money to chartered banks (expressed by a ratio of interest on deposits to total loans and investments) has averaged 1.9%. This suggests to Laurentide that the major factor involved in the development of a profitable rate structure by any financial agent, including the sales finance companies, the consumer loan companies and the chartered banks, is the difference in the cost of funds available to the credit grantors. These ratios of costs cover the whole range of lending by the respective institutions from small personal loans to loans totaling millions of dollars.

(3) The Small Loans Companies carry a substantially higher cost of operation for two reasons:

(a) The high number of low balance loans which cause high "per unit" handling costs. In 1960 the average small loan made was $501 and the average small loan balance outstanding was $409. Over 51% of the total dollar outstandings of the

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group of small loans companies analyzed was in this category.

(b) The small loan business is small unit business and, based on many years of experience of many companies, a necessary factor in developing a profitable volume is the use of commercial advertising techniques. The total of notes receivable of any one loan company over a period of time will bear a strong relationship to the amount of that company's advertising activity.

(4) Data available from the Superintendent of Insurance and resulting evidence submitted in the various investigations of the Standing Committee of the House of Commons on Banking and Finance suggest that consideration be given to the following points:

(a) The chartered banks apparently cannot operate in the small loan business without increasing their over-all operating costs, including advertising costs.

(b) If the banks are to continue in the small loan business and to profit by it they must either increase their present small loan lending rate substantially or, alternatively, the other sources of bank business will have to bear the burden of increased costs.

(c) The banks, by remaining in the small loan business at current rates of interest, will undoubtedly reduce the number of truly credit worthy customers available to those companies operating in the small loans business and will, therefore, force the need for a substantial increase in cost of funds borrowed by that segment of the population from the small loans companies or, alternatively, will force the small loan companies out of business with the result that an important segment of the Canadian population will be denied access to proper credit facilities at time of need.

Inequities in Competition from the Credit Unions, Chartered Banks and Industrial Development Bank

Credit Unions 103. Earnings are subsidized by way of tax exemption even though the credit union movement is "big business" and should have the same responsibilities to the over-all economy as other businesses.

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Chartered Banks 104.

(1) The banks earnings and, therefore, the ability of the banks to compete, is improved through their right in Canada to accept deposits - a privilege that is not available to the acceptance or small loans companies.

(2) Bank earnings are favourably affected by the ability to defer income taxes through the medium of special reserves.

(3) Bank earnings are improved by way of the fact that rate competition is now non-existent.

(4) Bank earnings are presently being improved through the fact that the chartered banks, as bankers to the finance industry, have been able to utilize the confidential but valuable experience of the finance companies in selecting customers for personal loan solicitation.

(5) Laurentide's ability to compete with the banks has and is continuing to be weakened as access to bank funds in the long run is gradually removed and as the cost of funds supplied by the banks is increased.

(6) Laurentide's competition with the banks is weakened by the fact that Laurentide has only one banking source in Canada, and that is the chartered banks as a group. Credit and operating decisions made by any individual bank in Canada invariably have proven to be the same as those of all other members of the group with regard to Laurentide.

Industrial Development Bank 105. The Industrial Development Bank is a Crown corporation. Its declared purpose is to provide financial assistance to those who are "engaged or about to engage in an industrial enterprise in Canada". Among the four basic conditions that the prospective borrower must comply with is the following:

> "....the required loan is not available elsewhere on reasonable terms and conditions".

The rate at which the I.D.B. lends money has fluctuated between 6% and 7 1/2%. The I.D.B. charges a commitment fee of $50 plus 2% per annum on the amount by which the credit accepted exceeds $25,000. Prepayments are subject to a prepayment fee of 6% of the amount prepaid within three years of the commencement of loan declining, as the

(1) The bank earnings and, therefore, the ability of the banks to compete is improved through their right in Canada to accept deposits - a privilege that is not available to the acceptance or small loans companies.

(2) Bank earnings are favourably affected by the ability to defer income taxes through the medium of special reserves.

(3) Bank earnings are improved by way of the fact that rate competition is now non-existent.

(4) Bank earnings are presently being improved through the fact that the chartered banks, as bankers to the finance industry, have been able to utilize the confidential but valuable experience of the finance companies in selecting customers for personal loan solicitation.

(5) Laurentide's ability to compete with the banks has and is continuing to be weakened as access to bank funds in the long run is gradually removed and as the cost of funds supplied by the banks is increased.

(6) Laurentide's competition with the banks is weakened by the fact that Laurentide has only one banking source in Canada, and that is the chartered banks as a group. Credit and operating decisions made by any individual bank in Canada invariably have proven to be the same as those of all other members of the group with regard to Laurentide.

Industrial Development Bank 105 The Industrial Development Bank is a Crown corporation. Its declared purpose is to provide financial assistance to those who are "engaged or about to engage in an industrial enterprise in Canada". Among the four basic conditions that the prospective borrower must comply with is the following:

> "....the required loan is not available elsewhere on reasonable terms and conditions".

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period of time lengthens, to not less than 2%.

106. The I.D.B. has been soliciting business through daily newspapers, financial and business newspapers and periodicals. It has met with considerable success in increasing its outstandings. Of course, the primary reason is the cost of funds which are available on a term basis. The terms generally run from 3 years up to 10 years. From the end of 1959 to January 31, 1962 the I.D.B. has disbursed $83.1 million in loans and approved in excessof an additional $36 million.

107. Laurentide, commencing three years ago, encountered a number of cases where commercial loan approvals by Laurentide were not being finalized. The reason eventually was determined to be that the I.D.B. was approving loans for the same firms. Naturally, the lower cost of money was more attractive and where choice was available, the I.D.B. loan was accepted. While the frequency of direct conflict appears to have decreased, the fact is that the detrimental affect of the lending policies of the I.D.B. on the finance industry has increased substantially. This is evidenced by the loan increases quoted above and by a review of the Dun & Bradstreet weekly bulletin which has listed a substantial number of companies as being recipients of I.D.B. loans who would qualify without difficulty for similar size and term commercial loans not only from Laurentide but from many of the other major finance companies in Canada.

108. Contacts with the I.D.B. by Laurentide have resulted in certain authoritative declarations:

(1) Capital of the I.D.B. is obtained from the Bank of Canada and although the I.D.B. is free to sell its debentures on the market, to date it has sold only to the Bank of Canada.

(2) The cost of funds to the I.D.B. is a rate of interest approximately 1/2 of 1% more than the yield on Government of Canada securities of the same maturity as the debentures under which the funds are obtained.

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(2) The cost of funds to the I.D.B. is a rate of interest approximately 1/2 of 1% more than the yield on Government of Canada securities of the same maturity as the debentures under which the funds are obtained.

(3) The I.D.B. is not required to pay income tax on its net profits.

(4) If finance companies become established as normal and direct lenders to small and medium sized borrowers, the I.D.B. might extend the same type of consideration to finance companies (the bank does take certain precautions to see that the credit being applied for it not likely to be forthcoming on reasonable terms from normal channels) as is now extended to other lenders.

The Effect of Advertising

109. Special comment should be made on advertising in view of the fact that it is a major form of communication, an important method of developing business and is very expensive.

110. First, it has been Laurentide's habit to be rather conservative in the volume of advertising it has undertaken although the pressure to increase advertising budgets is mounting daily. The pressure to do so is being exerted by competitor finance companies as well as by certain government agencies, the credit unions and the banks.

111. The following will apply to the advertising activities of government agencies and chartered banks.

112. Laurentide has undertaken a number of studies of the results of advertising and has arrived at certain conclusions with regard to this field:

- The volume of advertising undertaken by any business, in comparison with that done by another business in the same field has a very strong influence on the customers decision as to the business source with which it will deal (subject to the quality of advertising being comparable).
- The public image of the advertiser which has been developed over an extended period of time will lend emphasis to the content of the advertising message.

113. In Canada, the situation is such that the small loan companies spend approximately $1.9 million in advertising a year. It is estimated that the sales finance companies spend approximately one half of that amount. Thus, approximately $3 million in advertising expenses are

divided among 80 companies licensed under the Small Loans Act and in excess of 37 sales finance companies. Laurentide is not familiar with the amount of money spent by government agencies on advertising.

114. However, an analysis has been undertaken, based on an audit by Elliott-Haynes, of print advertising expenditures and consumer publications in Canada. Projection of these estimates has suggested that it is reasonable to estimate that the chartered banks in Canada plus the Canadian Bankers Association is spending approximately $6 million a year on advertising. The chartered banks do not advertise on radio and TV in Canada as a result of an agreement between them not to use these media, thereby avoiding higher advertising costs.

115. These figures do not give consideration to the advertising value of approximately 4,500 buildings of the chartered banks across Canada. It is Laurentide's intention in considering the foregoing estimates to bring to mind the effect that a $6 million advertising budget will have on the Canadian public each year, particularly when such a budget is expended by the banking group whose very name adds immeasurable prestige to and supplements the validity of the advertising message. The implication of the availability of 6% per annum interest rates on personal loans extended by the banks has been frequently fostered by their programme of advertising.

LAURENTIDE'S OBJECTIVES

What are Laurentide's Objectives ?

116. Laurentide's prime objective is to expand its position as a major financial institution operating profitably in Canada and other countries. The methods of accomplishment are to be complementary to the business methods generally accepted in each area in which Laurentide is or will be operating.

117. The objectives and methods of its achievement are to be such that they will contribute to a continuing development of sound economic and political growth and maturity in each area in which Laurentide operates.

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118. In summary, Laurentide expects to be an important and responsible member of the financial community wherever it is situated.

How Will Laurentide's Objectives be Achieved ?

119. Achievement is realized only if Laurentide and the atmosphere in which it operates are in harmony. This means that the following ingredients must be available:

(1) There must be a market for Laurentide's services.

(2) Laurentide must offer a product that is appealing to the market. To date, Laurentide has been successful in this regard. Obviously the appeal for Laurentide's services depends upon the following:
   (a) the price of the product
   (b) the speed and efficiency with which the product can be placed in the users' hands
   (c) the value of the service, on a continuing basis, to the market.

(3) Laurentide must have access to adequate funds from reliable sources at predictable prices.

(4) Laurentide must have capable personnel.

(5) Laurentide must be able to operate in a freely competitive market with regard to the raising of funds and the sale of its products. Alternatively, it should be a recognized member of specifically controlled markets where the scope of its function is clearly outlined and limitations are imposed in a concise manner.

LAURENTIDE'S BASIC ASSUMPTIONS UNDERLYING ITS RECOMMENDATIONS TO THE ROYAL COMMISSION

120. In developing its recommendations, a number of basic thoughts have been used as the foundation for Laurentide's recommendations. They are as follows:

(1) The finance industry is a needed industry in any country that wishes to progress, economically and socially, in the fastest and most efficient manner.

(2) The current health of any industry and its members, and the value of that industry to the people of the country are directly related to the degree of free competition that exists within that

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industry.

(3) Neither the finance industry nor its members can justifiably make any recommendations if they cannot be proven to be of value to the rest of the community.

(4) Where it becomes evident that the community requires certain protections, aside from the natural controls imposed by market forces, such controls must be designed to encourage pure competition and must not in any way act to create an omnipotent group within the community in that industry.

(5) Protections provided must not be allowed to become a crutch upon which an industry or unhealthy members of that industry can rely in the absence of ability or a market for the product.

(6) Protections must be designed in such a manner that investment in the industry involved is neither encouraged (in relation to other industries) nor discouraged. The public need for products and/or services and the resulting profit or loss history of the industry and its individual members should be the deciding factor as to which competitive package will be purchased.

(7) Protections to the public, basically, should consist of potential authority to prevent misleading advertising, the use of methods that involve harassment, and the presentation of products which jeopardize public health and welfare.

PART III - RECOMMENDATIONS OF LAURENTIDE FINANCIAL CORPORATION LTD.

Government Regulation of Sales Finance and Consumer Loan Companies

121. (1) Laurentide recommends that the Royal Commission urge the Dominion Government to refrain from imposing further restrictions on the sales finance and consumer loan companies.

<u>Reason:</u> Competition within the industry and from without is severe enough that the loss of customers as a result of any abuses that might be practised is already an effective restraint. Present laws (Dominion) are satisfactory and are very effective

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when actively administered, as they are now, for example by the Department of Insurance.

(2) Laurentide recommends that the Dominion Government be urged to retain control of all policies affecting financial institutions of all types and that it not allow controls to rest in the hands of various Provincial governments.

Reason: Monetary policy, to be fully effective and free of local influences, which are not necessarily in the interests of the Dominion, must be applied on a nation-wide basis.

(3) Laurentide recommends that the Dominion Government institute a standardized method of disclosure of borrowing costs in dollars and cents across Canada, and that the rules of disclosure apply to all suppliers of credit.

Reason: This information is the most important criterion in the consumers assessment of the cost of credit.

Financial Assistance to Borrowers by Government Agencies

122. (1) Laurentide recommends that all financial assistance rendered by government agencies, directly or indirectly, be subject to presentation of proof by the prospective borrower that funds are not available from other recognized sources of funds, including:

Sales Finance and Consumer Loan Companies
Chartered Banks
Life Insurance Companies
Mortgage Loan Companies

Reason: Such a ruling will allow the Government to avoid placing itself in the position of competing with private enterprise.

(2) Laurentide recommends that financial assistance rendered to certain categories of borrowers as provided for in Special Acts of Parliament be handled in a manner that precludes non-deserving borrowers from taking advantage of low cost funds,

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loss of which is guaranteed by the Government and, secondly, in such a manner that no privately owned financial institution in Canada is given unfair competitive advantage. Specifically, the following alterations in present handling should be made.

National Housing Act:

According to information provided to Laurentide by bankers, loans granted under Parts 1 to 1V of the National Housing Act have been made in line with the conditions outlined in the Act. However, apparently it has not been necessary for the banks to prove loss on defaulted accounts. The practise has been for the branch of the chartered bank to submit a request for payout by the Central Mortgage and Housing Corporation through the head office of the bank involved. The payout by C.M.H.C. has been by cheque submitted directly to the branch requesting payout. This method has been utilized with regard to Insured Mortgage Loans (Part 1), Guarantee of return on Housing for Rental Purposes and Land Assembly (Part II) and the guarantee of Home Improvement Loans and Home Extension Loans (Part 1V).

The present method of administration, in effect, has channeled potential mortgage company customers into the chartered banks, and potential sales finance and consumer loan company customers into the same institutions. Thus the chartered banks have been favoured in their activity and have, as a result, been able to create, at a competitive advantage, other profitable business. In addition, the apparent intention of the Bank Act was to have banks operate in the demand (short term) loan business. This intention is not achieved when the banks are allowed to accept 25 year mortgages under Part 1 of the N.H. Act.

The banks have also used Part 1V of the N.H. Act (Home Improvement Loans and Home Extension Loans) as a method of attracting customers who are eligible to borrow without guarantee. As an example, a bank, under the terms of the

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According to information provided to Lawrence by bankers, loans granted under Parts I to IV of the National Housing Act have been made in line with the conditions outlined in the Act. However, apparently it has not been necessary for the banks to prove loss on defaulted accounts. The practise has been for the branch of the chartered bank to submit a request for payment [illegible] mortgage [illegible] through the head office of the bank involved. The payout by C.M.H.C. has been by cheque submitted directly to the branch requesting payout. This method has been utilized with regard to Insured Mortgage Loans (Part I), Guarantee of Return on Housing for Rental Purposes and Land Assembly (Part II) and the guarantee of Home Improvement Loans and Home Extension Loans (Part IV).

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N.H. Act, Part IV, may receive a yield 5 1/2% per annum. However, if the borrower is strong enough the bank will provide the borrower with a personal loan at a discount of up to 6% (yielding up to 12% -interest per annum). The result is that the N.H. Act has been used by the bank to advantage over its competitors.

(3) Laurentide recommends that all financial assistance rendered directly or indirectly to borrowers by way of government loan or government guaranteed loan be specially classified with regard to interest and/or discounts payable. The reclassification should be such that interest payable on such loans (where presently such interest is tax deductable) is to be considered as a non-deductable expense in the calculations of income tax payable. This policy should apply to loans made by the Industrial Development Bank and loans made under the terms of the National Housing Act, Farm Improvement Loans Act and Small Business Loans Act.

Reason: Oftentimes such loans are made to borrowers who are poor risks and/or in support of doubtful enterprises from a security or "potential success" standpoint. Therefore, there is an element of risk involved which is completely underwritten by tax-payers throughout the country. Inasmuch as the loans made by the Industrial Development Bank take the place of risk capital, it is reasonable that the same standards of taxation that apply to capital contributed by preferred and common shares should be applied to the funds provided by the I.D.B. The introduction of such a method will automatically reduce the number of applications from potential borrowers who do not warrant special assistance and who, in fact, are looking only for cheaper money than is available from competitive non-government sources.

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Farm Improvement Loans Act.

123. This Act has been used to the advantage of the chartered banks in the same manner as the National Housing Act. Evidence of the results of the advantages provided to the banks is provided by D.B.S. statistics which show the following:

At December 31, 1961	Total of Balances Outstanding
Farm Improvement Loans	$194.3 million
Other Farm Loans	$290.7 million

Under the terms of the Farm Improvements Act, the available yield to the banks is 5 1/2% per annum. By making a loan outside of the jurisdiction and, therefore, without the protection of the Farm Improvements Act, the bank can increase its yield from 5 1/2% per annum to a yield ranging from 6% per annum to 12% per annum. While Laurentide does not criticize the fact that the bank makes such loans outside of the jurisdiction of the Act, it is concerned over the fact that, through the Act, the banks have been given a solicitation aid to the competitive disadvantage of other lenders. Laurentide also questions the judgment of the Farm Improvement Loans Act in providing funds to borrowers who are not eligible for a standard type of bank loan (the less credit worthy applicants) at approximately the same or a lower cost than is available to the more worthy credit risk.

Suggestions with Regard to Monetary Policy in a Free Enterprise System

124. Laurentide's suggestions are made in two parts. The first recommendations refer to policy. In the second, recommendations take the form of suggested specific steps to be initiated in achieving the targets established in the first group of comments.

Monetary Policy 125.

(1) Laurentide suggests that monetary policy be formulated in all respects by the Dominion government, and be administered by the Bank of Canada.

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Recommendations – Policy

(1) Laurentide suggests that monetary policy be formulated, in all respects by the Dominion government, and its admin-

(2) Laurentide suggests that monetary policy be established in such a manner that regulations, when needed, be designed to avoid favouring or acting to the disadvantage of a particular industry or group of industries.

(3) Laurentide suggests that when changes in monetary policy are to be initiated, this should be done in a manner which will affect credit practises in a positive manner. This point bears explanation. The methods of control restricting credit, in the past, have been positive (although directed towards one industry basically). However, government policy with regard to encouraging capital investment by means of a freer credit policy has not always been of a similar nature. This was evidenced during the government's programme of encouraging small business loans. Originally, the banks were asked to co-operate with the government in making funds available to small businesses for the purpose of increasing Canadian business activity. The banks co-operated to the maximum in light of the risk factors involved but their lending activity was not as extensive as the government had wished. The target of the government, therefore, was not achieved until it decided to strengthen the covenant of the potential Small Business Loan applicant by supporting it with a guarantee to the banks. This incident gives rise to the question of whether the ends that the government had in mind would have been more positive if it had allowed a higher rate of interest to be levied and had worked with the sales finance companies who have been traditionally in this business. An additional advantage in the case of such a decision undoubtedly would have been a reduction in the need for loan guarantees by the government.

(4) Laurentide suggests that monetary policy should be designed to encourage the lowest possible cost of funds, in the long

run, to all types of borrowers keeping in mind that the cost should not arbitrarily be established at a level which will result in a denial of credit opportunity to any part of the Canadian public.

(5) Laurentide suggests that monetary policy be designed in a manner to encourage maximum flexibility; that is, that the results of changes in policy are such that the Canadian money market will react quickly to changes in policy.

(6) Laurentide recommends that monetary policy and all associated legislation, whether it involves rates, terms, disclosure, documentation, etc., be placed under the authority of the Dominion Government.

(7) Laurentide recommends that monetary policy instituted by government to support national business needs by way of direct subsidy and/or guarantee should be reviewed from time to time with a view to removing support as soon as the need has been satisfied or no longer exists for other reasons. In this manner, justifiable government support will not be able, at a later date, to be used as a crutch by businesses and business activities which are not eligible, in fact, for support.

Specific Methods of Implementing Laurentide's Suggestions with Regard to Monetary Policy as it Affects Certain Government Aid Programmes

126. The Canadian financial system should be constructed in such a manner that it will have to react positively, at all times, to government monetary policy.

127. In essence, this means that the basic banking system of the country must invest and lend in such a manner that all investments and loans can be liquidated within a reasonable period of time.

128. Liquidity will be improved if Canadian chartered banks will undertake only that type of lending which can be considered to be demand or short term (less than one year) in nature.

(1) Therefore, Laurentide recommends that the present term-lending functions handled by the Canadian banks on a govern-

ment guaranteed basis should be transferred to financial agencies more suited to this type of lending. In this regard present term-lending functions can be identified and allocated as follows:

129. (a) Insured Mortgage Loans (National Housing Act, 1954 Part 1 as amended.

These are term loans which should be administered by recognized insurance/mortgage companies.

130. (b) Guaranteed Return Undertakings of C.M.H.C. (National Housing Act, Part II as amended).

The administration of this function should be made the responsibility of recognized insurance/mortgage companies.

131. (c) Home Improvement and Home Extension Loans (National Housing Act, 1954, Part 1V as amended).

Should be handled by all recognized sales finance and consumer loan companies.

132. The maximum rates at which such loans should be available will best be determined by special study of a government committee working with members from each of the lending industries that will be directly involved in the particular field. Maximum rate levels will be considered in relation to the source and cost of the funds to be used in making advances, keeping in mind the existence or non-existence of established competition in the field. Competition will automatically have a regulatory effect on interest rates. The extent of exposure of the government corporation established to guarantee such loans can be reduced greatly in dollars and as a percentage of loans made. This can be partially achieved by having the lending agent share the risk with the government corporation.

133. (d) Small Business Loans

133. The function of lending to small businesses in the manner and for the purposes specified in the Small Business Loans Act should be placed on the shoulders of the recognized sales finance companies in Canada. The field of business loans is traditional among the sales finance companies who have personnel trained in administering this type of programme. Again, the extent to which the government should be expected to guarantee losses would be less than is necessary under present methods. The industry would be prepared to share risks subject to the matter of the interest rate chargeable and sources and costs of funds used being reasonably determined.

134. (e) Farm Improvement Loans

The function of lending to the farmer should be distributed effectively among the sales finance and consumer loan companies, the chartered banks and the insurance/mortgage companies. The spread of sources would complement competition at every level and would result in more effective use of available funds. Again the degree of loss exposure to the government would be effectively reduced.

135. In addition to the redistribution of term-lending functions now undertaken by the chartered banks with the government's endorsement, it is recommended that the activities of the government as a term lender to the farmer be reviewed and adjusted to correspond to existing needs.

136. (f) The Industrial Development Bank

Laurentide recommends review and revision of the functions and terms of the activities of the Industrial Development Bank and, further, strongly recommends that interest paid to the Industrial Development Bank by borrowers be treated as a non-deductible expense for the purpose of computing income tax payable.

137. Reason: The efforts of the Industrial Development Bank, while obviously of good intention, do not necessarily correspond to Canadian need. The suggestion made here is that the Industrial Development Bank is fulfilling a function that is already being served, for the most part, by the chartered banks, the insurance and mortgage companies and by the sales finance, consumer loan and other types of financial institutions in Canada. It is estimated that approximately 50% of the loans authorized by the Industrial Development Bank in the past two years would have been readily granted by existing profit-making companies had they been given the opportunity to underwrite the business. The reason that the opportunity was not given to those independent companies has been purely a matter of the borrower seeking funds at the lowest cost to himself. The position of a government agency which has been formed to expedite economic progress should be one of fulfilling what could be termed as a "potential demand". Thus, in its purest sense, the Industrial Development Bank should make loans for the following purposes:

- The financing of research conducted by individuals or companies which is considered to be pure enough that its profit producing potential on a commercial basis is nebulous but which, if successful, would have reasonable future commercial value.
- Financing the initial development stages of companies whose products or services are apparently needed but, also, which are new enough to a given area or areas that the supply of risk capital and/or borrowed funds is so small that development cannot be completed.
- Refinancing of members of key industries (lumber, fishing, transportation, mining, for example) who, because of management problems or marketing prob-

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lems (which are outside the control of management) have encountered difficulties which are serious enough to have resulted in a complete loss of access to funds from other sources. A major justification for the issuance of funds by the I.D.B. in such areas and a prime condition of such a loan would be a management re-organization that has added materially to the ability and judgment of the executive group of the company. Government subsidized or guaranteed credit systems must be designed in such a manner that abuse of the privilege of applying for and receiving assistance is avoided.

138. It is axiomatic that any system of credit that provides lower cost funds to the less desirable credit risks than does the regular credit market can be considered to be misdirected and a target for abuse. The present method of operation of the Industrial Development Bank and the methods employed in the handling of government guaranteed home improvement loans, farm loans and small business loans are in contravention of the axioms of sound lending for the prescribed purposes which have been outlined.

139. Thus the Industrial Development Bank should be re-oriented to operate in such a way that it does no more and no less than serve a specific and clearly defined need. The Industrial Development Bank is not a tax payer and, as earlier discussed, its function is supposed to be such that it is a source of risk funds to be used in new product development or as "last resort" financing for businesses and industries whose existence is required but in jeopardy as a result of previously weak management or a changing market.

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140. Thus the opportunity to be born or, alternatively, the opportunity of survival offered by the I.D.B. is, of itself, a major contribution by the people of Canada to those to whom the I.D.B. extends its assistance. The key words in referring to its function, then, are "risk funds". Realistically, the I.D.B. provides a substitute for capital funds, the servicing of which is not an allowable expense in the computation of income tax.

141. This gives rise to the question as to why risk funds should be provided at extremely low cost without expectation of any compensatory return from those who benefit from this great service. From a pure commercial, as well as a public standpoint there is no reason. Thus, those who are eligible for I.D.B. assistance should be afforded the full advantage of the aid at the time that it is most needed but, at the same time, the Canadian business man and consumer should have the assurance that those businesses that have benefitted by such assistance will have recognized, in a material way, the very great opportunity to survive that was made available through the assistance of the public.

1. Chartered Banks in Canada

Laurentide recommends that:

142. (a) The chartered banks in Canada should engage in the method of operation which will contribute most to the maintenance of a flexible national monetary policy. This is best achieved by adhering to a system which keeps loans in a position whereby they can be liquidated on demand.

143. (b) The chartered banks should comply immediately with

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143. (b) The chartered banks should comply immediately with

the instructions and intentions of the Bank Act in all its phases and most particularly with regard to the maximum legal rate of interest as specified in Section 91 of the Bank Act.

144. (c) While Laurentide recommends that the Bank Act, as assented to on June 26, 1954, should not be amended except as it pertains to government guaranteed loans and term loans (refer to earlier sections of this brief), Laurentide is also aware that certain alternatives may come to light during the 1964 review of the Act which may result in revisions of authority and rate. In such an event Laurentide recommends that:

(i) both the intention and rules of the Bank Act are clearly understood and adhered to (refer Section 91 of the Bank Act).

(ii) if bank loans are to be of the nature of demand loans then an interest rate (not discount) ceiling of 6% per annum is adequate and Section 91 should remain undisturbed.

(iii) if the ceiling established under Section 91 is to be changed by virtue of the fact that banks are to engage in higher risk and longer term lending, then the interest ceiling should be higher than the rate currently charged and, therefore, should be in excess of 12% per annum interest.

(iv) the banks should be required to pay interest on the average daily balance on all savings accounts, regardless of the term in excess of one day in which the deposit remains with the bank.

145. (d) Sections 99 and 100 be amended to prevent further chartered bank mergers or sale to other established

banks in Canada.

146. (e) The Canadian Bankers Association should operate as any other association of this type and should not be used as an instrument in the support of anti-competitive practises.

Laurentide's reasoning behind the foregoing recommendations is as follows:

147. Demand Loans vs. Term Loans The continued expansion of the chartered banks in the term loan field is endangering the basic and sound principles upon which the Canadian banking structure was founded (and which protected Canada from the same degree of disaster as was experienced by many countries in the '30s). The ability of the Canadian finance system to remain elastic and, therefore, sensitive to shifts in economic need is becoming increasingly impaired.

148. The return of a demand loan policy to the chartered banking system would have five favourable results:

(1) The banks will become even more reliable and responsible sources of funds to the rest of Canada's commercial community.

(2) The banks will automatically become supporters of both new and already established businesses rather than competitors for funds which can be used productively by those businesses.

(3) It will encourage continuing competition within the various lending industries. It will also contribute to the maintenance of a healthy secondary finance industry which will continue to serve, as a result of its normal reaction to changes in monetary policy, as an effective buffer between the Bank of Canada and the chartered banks and the persons most specifically affected by changes in monetary policy - the consumer. Historically the sales finance and consumer loan companies have served very capably in this capacity as a result of their

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natural need to retain customer confidence in a highly competitive business.

(4) Maximum liquidity of the chartered banks will be assured.

(5) The danger of the potential development of a fully monopolized financial industry in Canada will be decreased.

149. Interest Rates Section 91 of the Bank Act is very explicit in intent and wording. Yet the chartered banks in Canada have bypassed its instructions with the introduction of various personal loan plans yielding in excess of 6% per annum interest.

150. Laurentide Financial Corporation Ltd. wishes to point out that if its subsidiary, Laurentide Finance Company, which was incorporated by a Special Act of Parliament and operates subject to its compliance with the rules laid down in the Small Loans Act, were to revise its rate structure on the basis of the same justifications formulated by the chartered banks, Laurentide Finance Company's license to do business in Canada would be revoked immediately.

151. Laurentide is opposed to any undertaking which is a violation of the authority and responsibility granted by the people.

152. Chattel Mortgage Financing by Chartered Banks The 1954 revision of the Bank Act introduced Section 76 as an amendment to the Act. Laurentide suggests that the intention of the amendment apparently has been misunderstood by the chartered banks who have used it to further the use of higher rates in the banking field.

153. The final interpretation of the purpose of the amendment by the members of the Banking Committee seems to be that Section 76 was proposed to aid the banks in their efforts to serve fully the market for loans to individuals at a rate within the maximum legal interest rate of 6% per annum. At that time a specific proposal to increase the rate to 12% per annum was made but this proposal was rejected by the Committee.

154. Treatment of Savings Deposits When the chartered banks offer investors in the short term money market a return calculated on a

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2. Manufacturer and Vendor Owned Finance Companies

155. Laurentide suggests that the Royal Commission should inquire into the background and operations of the manufacturer and vendor owned finance companies to determine the degree to which they are receptive to monetary policy and to determine their impact on the competitive system.

156. Reason In reviewing the progress of the finance industry to date and in trying to evaluate its future, Laurentide has continually been confronted with the possible existence of two special factors:

(1) The sensitivity to monetary policy of manufacturer/vendor owned finance companies. For the most part these companies cannot be considered to be sensitive to monetary policy in the manner expected by the monetary authorities. The reason for this is that, in addition to having sources of funds similar to those of other financial institutions, the captive finance company has access to the entire financial resource of the parent, and, normally, the mechanical arrangements possible are such that the effects of government monetary policy are negated.

(2) The pressure that the captive finance company is capable of exerting on the customer of the parent. It seems that, oftentimes, unusual pressure has been brought to bear on customers (generally franchised) for the purpose of eliminating competition.

3. Credit Unions

157. Laurentide recommends that credit unions be made subject to all of the responsibilities applicable to Canadian businesses which are established for the purpose of producing profit, including the payment of income tax on profits, registration provincially and federally in accordance with recognized methods of business registration, govern-

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ment inspection where applicable and proper auditing procedures as will become necessary in the eyes of shareholders if credit unions are forced to operate in a competitive manner.

158. Reasons While credit unions as such were originally the result of an apparently genuine desire on the part of certain groups of people to provide a method of assistance to each other on a smaller scale, the credit union movement has grown far beyond the local fraternal and mutual assistance programme that once was its justification.

159. The 1954 Royal Commission on Co-Operatives defined credit unions in general in developing a description of the Caisse Populaire. The Commission at that time said:

> "A Credit Union may be defined as an incorporated group of people with some well-defined tie of association, occupation or residence who pool their savings in the form of shares and deposits and, out of the funds so accumulated, make loans to members only for purposes which are considered to be provident or productive."

160. It is interesting to note that minors are allowed to become members of credit unions, often the only limitation involved in their membership being that they cannot become members of the board of directors or of the credit or supervisory committees.

161. Voting power is distributed in proportion to the number of members - not in relation to share distribution.

162. Dividends paid on investment in the credit unions are made available in two ways. One is a rebate to borrowers on interest paid by them on loans outstanding during the year under review. The other method is by way of a declaration of dividends to be distributed on a per-share basis. In many instances, the two methods of paying dividends are used by the same credit union in the same year.

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tributed by way of credit to the shareholders account. There are few recorded instances of dividends and rebates having been paid in cash.

164. By law, credit unions are exempt from taxes whether or not profits are distributed to members.

165. Loans outstanding, in Canada, at the end of 1960 (according to the Credit Union Year Book - 1961) were $804,052,000 and total assets were $1,287,640,000. A major review of credit union activities and resulting conclusions will be contained, undoubtedly, in the brief to be submitted by the Federated Council of Sales Finance Companies as well as by other corporations and associations heard by the Royal Commission. Therefore, to avoid repetition, Laurentide's comments in support of its recommendations will be confined to certain basic considerations.

166. (a) The credit unions are "big business" in Canada and the U.S. and, except for a relatively small group of credit unions representing an even smaller percentage of total loans and assets of the credit unions in both countries, they are conducted as profit-producing businesses. They are not a unique source of credit catering to the needs of people who cannot receive similar accommodation at similar cost from other sources.

167. (b) Credit unions actively compete with all other types of lending institutions and are using, as part of their method of developing business the methods of solicitation generally used by standard types of financial institutions, including direct mail, newspaper, radio and TV advertising and salaried sales personnel.

168. (c) Although individual credit unions have continued to attempt to represent themselves as working within restricted territorial limits as defined in Section 62

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of the Income Tax Act, their method of operation can now be termed as national and, in some cases, as international in effect. This has been made possible with the development of CUNA as the senior association in the credit union system and which is supported by the credit union leagues in each province and by the credit unions themselves in non-league areas.

169. The effect of this highly developed organization has been the development of a very capable, integrated lending service operating on an international basis. The complete organization is also capable of providing strong financial intra-member assistance throughout North America.

170. The entire system can now be very closely identified with any well-known franchise-granting profit producing industry in North America.

171. (d) Rarely do credit unions to-day serve people with a "common bond" and any continuation of the impression that this is so is not in keeping with modern day interpretations of interest similarities. For example, the community or locale in which one lives does not support in any way a "common bond" identity among the residents of a large urban centre.

172. (e) The profits of the Canadian credit unions are so great that it is not possible to consider them as being developed by any other than a system of high professional ability.

173. (f) The potential tax revenue available to the people of Canada out of the profits of the credit unions is such that its use could assist materially in development and welfare programmes throughout the nation.

174. One estimate, based on loans and investments outstanding of $804 million with a net profit of 2.5 to 3% of this figure, is that if the business presently handled

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by credit unions actually was processed by taxable credit institutions, the additional tax revenue available would be approximately $10 million. Local tax authorities would also benefit as a result of the revenues that would be avilable from credit unions through business licensing programmes, other fees and provincial income taxes.

175. (g) The cost of doing business of many commercial enterprises would be reduced to an important degree as a result of the opportunity for those enterprises to charge a fair fee for office space, utilities, machinery and equipment which they are presently making available to credit unions without charge.

176. (h) The cost of borrowing at the credit union is much higher than indicated when one takes into consideration the fact that the borrower is the major source of funds.

177. (i) One of the most important considerations in reviewing the structure of credit unionism in Canada is its lack of sensitivity to monetary policy. The regulatory periods of 1951, 1956 and 1959 in Canada did not have any effect on credit unions except to assist them in materially increasing their sales volume. Naturally, much of the sales volume obtained by the credit unions at that time has remained lost to the standard type of finance and insurance/mortgage company.

Recommendations Designed to Improve the Efficiency of Canadian Finance Company Operations

178. (1) Laurentide recommends that the laws affecting and/or regulating finance company operations be uniform across Canada.

179. Reason The effect of uniformity would be threefold:

(a) Public confusion with regard to rates, regulations

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credit institutions, the additional tax revenue available would be approximately $10 million. Local tax authorities would also benefit as a result of the revenues that would be avilable from credit unions through business licensing programmes, other fees and provincial income taxes.

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and the degree of protection that is available to the user of finance company funds will be effectively amended.

(b) Along with the fact that the responsibilities of both the finance companies and the borrowing public will be clearly defined will be the advantage that the processes of law will be more easily set in motion by both parties in those cases where responsibility must be validated by process of law.

(c) The costs of operation of the finance companies will be favourably reduced to the benefit of their customers and shareholders.

180. (2) Laurentide recommends that registration of liens remain in effect without need for renewal until such time as the lien is legally discharged by the lien-holder.

181. Reason The fact that lien registrations must be legally renewed after certain periods of time have elapsed if the lien is to remain valid is an unnecessary expense and a feature of present day law that does not afford the borrower or third parties any particular protection. Also, finance companies have often been afflicted with distasteful losses as a result of the borrowing public having a technicality to hide behind should the finance company, through oversight, fail to renew the lien.

182. (3) Laurentide recommends that, in the event its views on the adverse affect on liquidity in the chartered banks resulting from their rapid expansion in the term loan business is not shared by this Commission or the authorities enforcing monetary policy in Canada, the privilege of accepting deposits should be extended to the finance

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182. (11) Laurentide recommends that, in the event its views on the adverse affect on liquidity in the chartered banks resulting from their rapid expansion in the term loan business is not shared by this Commission or the authorities enforcing monetary policy in Canada, the privilege of accepting deposits should be extended to the finance

183. <u>Reason</u> The major point justifying this recommendation is that its implementation will assure a continuance of the availability, in the long run, of credit to all segments of the Canadian population at the lowest possible cost.

184. The second justification involves the liquidity of investments made with Canadian depositors funds.

185. Should pressure be successfully exerted to leave the banks in the term loan business at rates in excess of those presently authorized by Section 91, the result, as earlier indicated, is going to be a removal of access to credit for an important segment of the population and/or a substantial increase in the costs of credit to the same group or, alternatively, to all groups. Laurentide is opposed to both and submits that the logical method of avoiding these results will be to allow the company to take advantage of a lower level of money costs through the acceptance of deposits, which will make it possible, in turn, to fill the vacuum.

186. The granting of this deposit acceptance privilege would have three important results.

187. (1) It would contribute to maintaining a source of credit at reasonable cost for the population group that is presently in danger of being abandoned.

188. (2) It would contribute to the maintenance of the lowest possible cost to all credit users in Canada.

189. (3) It would serve to create effective competition with the chartered banks, thereby strengthening the free enterprise system in Canada.

190. Again, this amendment should serve to reduce the operating costs of the finance companies. The application of this recommendation will be greatly facilitated by the introduction of uniform legislation.

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Recommendations Designed to Increase Business Activity in Canada and to Strengthen Canada's Position in International Trade and Commerce

191. (1) Laurentide recommends the introduction of accelerated depreciation schedules on capital equipment as an incentive to modernize and improve plant efficiency and production.

192. Reason. Much of Canada's industrial equipment is outdated and causing high cost operation throughout the nation. The loss of tax revenue through higher depreciation allowances will be more than compensated for with an increase in taxable income of equipment suppliers resulting from higher sales volume. The amendments introduced in June of 1961 and in previous years, while directionally correct, are not substantial enough to achieve the currently desired effect.

193. The acceptance of this recommendation will affect favourably the business of all commercial and financial houses.

194. (2) Laurentide recommends that the Canadian government take immediate steps to reduce Canadian withholding taxes and to negotiate reductions in foreign withholding taxes.

195. Reason Present tax treaties and practises are restrictive enough in effect to the extent that international investment by Canadian businessmen in other countries and by business groups from other countries in Canada is discouraged to the detriment of the Nation's growth.

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BALANCE SHEET DATA

FISCAL YEAR END

(Thousands of Dollars)

	1953	1954	1955	1956	1957	1958	1959	1960	1961
A. ASSETS									
1. Cash	367	694	937	614	908	1,836	3,547	2,105	8,179
Share Subscription Receivable									4,542
2. Securities:									
(a) Marketable					40	1,229	2,010	18,920	11,889
(b) Other (excluding investments in subsidiaries and associated companies)									
3. Notes and accounts receivable:									
(a) Retail	13,614	15,288	19,490	36,020	40,801	42,105	50,953	76,042	92,402
(b) Wholesale	2,138	2,824	3,235	6,421	8,021	9,884	13,436	17,384	12,847
(c) Real estate loans	10	22	13	25					
(d) Capital loans to dealers	50	62	219	256	224	2,330	2,503	2,575	2,982
(e) Direct Consumer Loans									33,723

BALANCE SHEET DATA (cont'd)

FISCAL YEAR END

(Thousands of Dollars)

	1953	1954	1955	1956	1957	1958	1959	1960	1961
3. Notes and accounts receivable (cont'd)									
(e) Other capital loans (e.g. for plant, machinery, etc.)									
(f) Sundry accounts receivable	31	68	91	129	185	492	548	741	1,346
(g) Provision for doubtful accounts	89	90	121	311	605	639	711	1,381	2,830
4. Investments in and advances to:									
(a) Subsidiary companies									
(b) Associated companies									
5. Investment in fixed assets (less accumulated depreciation) held to product rental income									
6. Fixed assets, less accumulated depreciation	70	94	132	207	204	260	614	638	1,282

BALANCE SHEET DATA (cont'd)

(Thousands of Dollars)

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3. Notes and accounts receivable (cont'd)									
(e) Other capital loans (e.g. for plant, machinery, etc.)									
(f) Sundry accounts receivable	31	68	91	129	185	492	598	741	1,346
(g) Provision for doubtful accounts	89	90	121	311	605	639	711	1,381	2,230
4. Investments in and advances to:									
(a) Subsidiary companies									
(b) Associated companies									
5. Investment in fixed assets (less accumulated depreciation) held to produce rental income									

BALANCE SHEET DATA (cont'd)

FISCAL YEAR END

(Thousands of Dollars)

	1953	1954	1955	1956	1957	1958	1959	1960	1961
7. Leasehold improvements, less amortization	26	24	40	41	63	74	89	77	316
8. Unamortized cost of acquisition of borrowed money	207	368	248	357	522	611	884	1,145	1,495
9. Other assets (goodwill organization expenses, etc.)	16	14	51	39	1,707	1,758	1,579	1,363	4,259
10. Total Assets	16,440	19,368	24,335	43,798	52,070	59,940	75,452	119,609	172,432

(1) The assets and liabilities of Laurentide Acceptance Corporation Ltd., for the years 1953 to 1956 inclusive, have been included in the balance sheet data, although control was not acquired until March 31, 1957. The fiscal year end of Laurentide Acceptance Corporation Ltd. for this period was October 31, and figures as at that date have been combined with Laurentide Financial Corporation Ltd., and subsidiary company data as at the June 30 fiscal year end.

(2) The 1961 data includes the figures of our U. S. subsidiaries and our Canadian small loans company.

BALANCE SHEET DATA

FISCAL YEAR END

(Thousands of Dollars)

	1953	1954	1955	1956	1957	1958	1959	1960	1961
7. [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
8. Unamortized cost of acquisition of borrowed money	207	358	248	357	522	611	884	1,145	1,495
9. Other assets (goodwill organization expenses, etc.)	16	14	51	39	1,707	1,758	1,578	1,363	4,258
10. Total Assets	16,440	19,358	24,335	43,798	52,070	55,940	75,452	119,809	172,432

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(2) The 1961 data includes the figures of our U. S. subsidiaries and our Canadian small loans company.

BALANCE SHEET DATA

FISCAL YEAR END

(Thousands of Dollars)

	1953	1954	1955	1956	1957	1958	1959	1960	1961
B. LIABILITIES									
1. Bank borrowings	7,126	3,973	6,202	16,742	17,750	12,300	20,150	13,875	14,875
2. Demand loans or notes, other than bank					681	470	3,852	996	425
3. Short term notes, not payable on demand									
Standard maturities									
(a) 30 day maturity when issued		125	700	1,500	1,771	830	2,195	6,946	1,400
(b) 60 " " " "				155	862	782	2,730	2,630	2,277
(c) 90 " " " "	591	489	750	1,630	5,799	2,872	2,521	6,576	3,189
(d) 180 " " " "	765	945	1,375	1,650	748	4,517	2,707	13,327	11,589
(e) 270 " " " "	500	600		700		1,213	988	706	1,513

BALANCE SHEET DATA (cont'd)

FISCAL YEAR END

(Thousands of Dollars)

	1953	1954	1955	1956	1957	1958	1959	1960	1961
3. Short term notes, not payable on demand (cont'd)									
Standard Maturities									
(f) 365 day maturity when issued		300	1,727	677	113	1,620	395	390	17
(g) 1 to 2 years when issued						690	2,780	1,865	3,816
(NOTE: Maturities may vary by two or three days because of holidays or week ends. Classify such exceptions as of nearest standard maturity. E.G. a 91 day note should be classified as 90 days, a 182 day note as 180 days.)									
Notes with variable maturities									
(a) Less than 90 days					363	5,640	494	6,326	3,676
(b) Less than 180 days				75	531	2,936	1,215	4,105	2,462
(c) Less than 365 days				225	238	55	563	4,158	4,885
Total Short Term Notes	1,856	2,459	4,552	6,612	10,425	21,155	16,588	47,029	34,824
Unsecured Notes of U.S. Company									18,174

BALANCE SHEET DATA (cont'd)

FISCAL YEAR END
(Thousands of Dollars)

	1953	1954	1955	1956	1957	1958	1959	1960	1961
4. Long term notes - more than 2 years to maturity when issued	1,416	4,838	4,737	4,720	5,680	5,651	8,873	25,315	38,094
U.S. Subsidiary Long Term									7,500
5. Bonds and debentures (expressed in Canadian funds at historical rate with the exception of bonds maturing within one year which should be converted at year end rate)	1,435	1,636	1,913	3,421	5,380	4,266	8,105	9,305	14,429
U.S. Subsidiary Debentures									4,526
6. Accounts payable and accrued liabilities, including taxes on income	189	403	520	697	914	1,070	1,362	2,343	4,338
7. Dealers' credit balances	715	871	998	1,924	2,258	2,522	2,745	3,125	3,707
8. Advances from parent or associated companies									
9. Other liabilities	1	9	13	6	2,055	926	960	1,068	4,603
10. Unearned service charges	1,534	1,687	2,040	3,548	3,794	3,860	4,243	6,419	7,515

BALANCE SHEET DATA (cont'd)

FISCAL YEAR END
(Thousands of Dollars)

	1953	1954	1955	1956	1957	1958	1959	1960	1961
L.A.C. Equity before acquisition	2,105	3,172	2,903	4,223					
11. Shareholders' equity:									
(a) Preferred stock	20	150	150	540	514	3,174	2,982	2,872	11,152
(b) Common stock	11	149	252	1,240	2,281	3,606	4,512	5,756	6,533
(c) Capital surplus	22	5							
(d) Earned surplus	10	16	55	125	338	940	1,080	1,526	1,737
(e) Contingent Reserves									
12. Total liabilities and capital	16,440	19,368	24,335	43,798	52,070	59,940	75,452	119,609	172,432

BALANCE SHEET DATA

FISCAL YEAR END
(Thousands of Dollars)

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	2,105	3,172	[illegible]	[illegible]					
11. Shareholders' equity:									
(a) Preferred stock	20	150	150	540	514	3,176	2,982	2,872	11,152
(b) Common stock	11	149	252	1,240	2,281	3,606	4,512	5,756	6,533
(c) Capital surplus	22	5							
(d) Earned surplus	10	16	55	125	338	940	1,080	1,526	1,727
(e) Contingent Reserves									
12. Total liabilities and equity	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EXPENSES

(Thousands of Dollars)

	1953	1954	1955	1956	1957	1958	1959	1960	1961
16. Interest on loans and funded debt	5	17	71	451	1,066	2,008	1,983	3,917	5,331
17. Cost of acquisition of borrowed money									
18. General and administrative:									
Salaries and wages	7	22	66	262	479	1,161	1,553	1,664	3,037
Rent	1	3	8	28	44	88	115	153	311
Depreciation		3	5	19	40	97	137	150	223
19. Net earnings (loss) for year before taxes	10	48	119	286	736	1,897	1,364	2,170	3,413
20. Provision for income taxes	2	18	52	129	333	855	795	785	1,516
21. Net earnings (loss) for year after taxes	8	30	67	157	362	954	1,011	1,324	1,752

Note The above figures do not include the net earnings of Laurentide Acceptance Corporation Ltd. prior to acquisition of control on March 31, 1957. Net earnings for this period expressed in thousands of dollars were:

1953	145
1954	227
1955	313
1956	321

1957 9 months period pro rated 240

SURPLUS

Note: Important adjustments in earned surplus should be applied back in the income statement to the years affected

	1953	1954	1955	1956	1957	1958	1959	1960	1961
1. Opening balance	8	15	20	55	125	338	940	1,080	1,526
Add:									
2. Net earnings (loss) for the year	11	30	67	157	362	954	1,011	1,324	1,752
3. Large items other than prior year's adjustments applied back in income statement (detail)									
4. Other (in total)						13		33	147
Deduct:									
5. Dividends	4	25	32	80	149	365	593	661	909
6. Large items other than prior year's adjustments applied back in income statement (detail)									
7. Other (in total)				7			278	250	779
8. Closing Balance	15	20	55	125	338	940	1,080	1,526	1,737

SELECTED ASSETS & LIABILITIES (cont'd)

ON QUARTERLY BASIS
BALANCE OUTSTANDING

(Thousands of Dollars)

End of Quarter		1953	1954	1955	1956	1957	1958	1959	1960	1961
Assets										
Cash	M	8	122	112	45	235	227	47	214	3,340
	J	227	325	459	452	908	1,836	3,547	2,105	8,179
	S	65	344	240	276	152	127	179	170	5,779
	D	196		197		680	534	173	174	4,759
Marketable Securities	M							1,546	25,801	14,078
	J					40	1,229	2,010	18,920	11,889
	S							13,664	15,269	13,927
	D					1,022	1,261	13,849	17,165	11,769

SELECTED ASSETS & LIABILITIES (cont'd)

ON QUARTERLY BASIS

BALANCE OUTSTANDING

(Thousands of Dollars)

End of Quarter		1953	1954	1955	1956	1957	1958	1959	1960	1961
Assets (cont'd)										
Total Notes Receivable	M	12,393	17,725	19,869	36,842	45,787	50,928	61,601	83,699	141,573
	J	14,520	19,102	22,645	42,650	49,046	54,319	66,892	96,001	141,954
	S	15,804	19,116	25,533	42,848	47,551	53,305	71,143	100,047	142,220
	D	16,203	18,795	30.256	44,361	47,200	55,823	76,164	99,881	154,167
Total Assets	M	12,689	18,413	20.715	37,904	47,270	54,671	65,856	112,828	164,688
	J	15,102	20,039	23,802	43,792	52,070	59,940	75,452	119,609	172,432
	S	16,232	20,203	26,900	43,872	49,834	57,470	87,735	118,330	167,942
	D	16,933	19,659	31,709	45,054	51,375	60,371	92,816	119,719	176,500

SELECTED ASSETS & LIABILITIES
ON QUARTERLY BASIS
BALANCE OUTSTANDING
(Thousands of Dollars)

End of Quarter		1953	1954	1955	1956	1957	1958	1959	1960	1961
Liabilities										
Bank Loans	M	5,425	4,330	3,678	14,600	16,675	11,925	14,800	15,150	13,100
	J	6,942	3,893	5,996	17,650	17,750	12,300	20,150	13,875	14,875
	S	6,649	3,749	8,089	16,750	15,000	7,300	16,350	12,050	15,725
	D	3,613	3,489	12,515	17,450	14,400	9,550	17,175	17,650	12,250
Short Term Notes	M	1,074	2,105	2,091	5,405	9,694	18,892	23,490	44,367	33,037
	J	893	3,335	4,376	7,095	10,425	21,155	16,588	47,029	34,824
	S	1.875	2,896	4,477	6,169	11,561	24,065	34,156	41,141	30,129
	D	1,943	2,289	4,855	6,262	13,190	24,460	37,970	32,508	33,750

Note: Above figures cover Canadian operations only.

SELECTED ASSETS & LIABILITIES (cont'd)

ON QUARTERLY BASIS

BALANCE OUTSTANDING

(Thousands of Dollars)

End of Quarter		1953	1954	1955	1956	1957	1958	1959	1960	1961
Liabilities (cont'd)										
Long Term Notes	M	1,400	4,883	4,814	4,750	5,680	5,651	6,243	24,792	38,771
	J	1,400	4,847	4,771	4,750	5,680	5,651	8,873	25,315	38,094
	S	1,400	4,821	4,757	5,725	5,677	5,149	9,959	27,372	38,092
	D	4,883	4,818	4,750	5,687	5,652	5,423	11,060	32,846	43,178
Debentures	M	995	1,313	1,580	3,492	4,296	4,504	4,748	7,376	14,742
	J	1,470	1,748	1,952	3,440	5,380	4,266	8,105	9,305	14,429
	S	1,435	1,648	1,519	3,434	5,238	4,222	8,055	11,031	14,389
	D	1,388	1,604	1,437	3,345	4,703	4,353	7,563	11,004	14,177

Note: Above figures cover Canadian operations only.

SELECTED ASSETS & LIABILITIES (cont'd)

ON QUARTERLY BASIS

BALANCE OUTSTANDING

(Thousands of Dollars)

End of Quarter		1953	1954	1955	1956	1957	1958	1959	1960	1961
Liabilities (cont'd)										
Advances from Parent or Associated Companies	M	.....	.....	.....	.....	.....	.....	.....	.....	.....
	J	.....	.....	.....	.....	.....	.....	.....	.....	.....
	S	.....	.....	.....	.....	.....	.....	.....	.....	.....
	D	.....	.....	.....	.....	.....	.....	.....	.....	.....
Total Liabilities & Capital	M	12,689	18,413	20,715	37,904	47,270	54,671	65,856	112,828	164,688
	J	15,102	20,039	23,802	43,792	52,070	59,940	75,452	119,609	172,432
	S	16,232	20,203	26,900	43,872	49,834	57,470	87,735	118,330	167,942
	D	16,933	19,659	31,709	45,054	51,375	60,371	92,816	119,719	176,500

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LINES OF BANK CREDIT

(Thousands of Dollars)

End of Quarter	AUTHORIZED	UTILIZED	UNUSED
1953			
M	6,250	5,425	825
J	7,300	6,942	358
S	7,300	6,649	651
D	6,050	3,613	2,437
1954			
M	6,050	4,330	1,720
J	6,550	3,893	2,657
S	6,550	3,749	2,801
D	6,550	3,489	3,061
1955			
M	9,050	3,678	5,372
J	10,550	5,996	4,554
S	17,550	8,089	9,461
D	18,550	12,515	6,035
1956			
M	18,750	14,600	4,150
J	20,250	17,650	2,600
S	20,250	16,750	3,500
D	20,775	17,450	3,325
1957			
M	22,775	16,675	6,100
J	22,775	17,750	5,025
S	22,775	15,000	7,775
D	22,775	14,400	8,375

Note Does not include bank lines of U. S. Subsidiary

LINES OF BANK CREDIT (cont'd)

(Thousands of Dollars)

End of Quarter	AUTHORIZED	UTILIZED	UNUSED
1958			
M	22,775	11,925	10,850
J	23,775	12,300	11,475
S	23,775	7,300	16,475
D	27,225	9,550	17,675
1959			
M	27,225	14,800	12,425
J	29,725	20,150	9,575
S	18,600	16,350	2,250
D	18,600	17,175	1,425
1960			
M	18,600	15,150	3,450
J	18,600	13,875	4,725
S	19,600	12,050	7,550
D	21,100	17,650	3,450
1961			
M	21,300	13,100	8,200
J	21,300	14,875	6,425
S	21,700	15,725	5,975
D	21,900	12,250	9,650

Note: Does not include bank lines of U. S. Subsidiary

INTEREST RATES PAID *

Per Cent

End of Quarter	Bank Loans	Short Term Paper ** Maturity in Days 30	60	90	180	270	365	Long Term Paper	Debentures	Other (Specify)
1953										
M	4 1/2	3	3	3	3 1/2	3 3/4	4	5	5 1/2	
J	4 1/2	3	3	3	3 1/2	3 3/4	4		5 1/2	
S	4 1/2	3	3	3	3 1/2	3 3/4	4	5	5 1/2	
D	4 1/2	3	3	3	3 1/2	3 3/4	4	5-5 1/4	5 1/2	
1954										
M	5	3	3	3	3 1/2	3 3/4	4	5-5 1/4	5 1/2	
J	5	3	3	3	3 1/2	3 3/4	4	5-5 1/2	5 1/2	
S	5	3	3	3	3 1/2	3 3/4	4	5-5 1/2	5 1/2	
D	5	3	3	3	3 1/2	3 3/4	4	5-5 1/2	5 1/2	
1955										
M	5	3	3	3	3 1/2	3 3/4	4	5-5 1/2	5 1/2	
J	5	2 1/4	2 1/4	2 1/4	2 1/2	2 3/4	3	5-5 1/2	5 1/2	
S	5	2 1/4	2 1/4	2 1/4	2 1/2	2 3/4	3	5-5 1/2	5 1/2	
D	4 1/2	3	3	3	3 1/2	3 3/4	4	5-5 1/2	5 1/2	
1956										
M	4 1/2	2 3/4	2 3/4	2 3/4	3	3 1/4	3 1/2	5-5 1/2	5 1/2	
J	5	3 3/4	3 3/4	4	4	4	4 1/4	5-5 1/2	5 1/2	
S	5 1/4	3 3/4	3 3/4	4	4 1/4	4 1/4	4 1/2	5-5 1/2	5 1/2	
D	5 1/2	5 1/4	5 1/4	5 1/2	5 3/4	6	6	5-5 1/2	5 1/2	

* Indicate the rates charged

** Indicate yield for each maturity specified on balance sheet questionnaire for short-term paper

Note: Above figures cover Canadian operations only.

INTEREST RATES PAID* (cont'd)
PER CENT

End of Quarter	Bank Loans	Short Term Paper** Maturity in Days 30	60	90	180	270	365	Long Term Paper	Debentures	Other (Specify)
1957										
M	5 1/2	5 1/4	5 1/4	5 1/2	5 3/4	6	6	5-5 1/2	5 1/2	
J	5 1/2	5 1/4	5 1/4	5 1/2	5 3/4	6		5 1/2	5 1/2	
S	5 3/4	5 1/4	5 1/4	5 1/2	5 1/2	6		5 1/2	5 1/2	
D	5 1/2	4	4	4 3/4	5	5 1/		5 1/2	5 1/2	
1958										
M	5 1/4	3 1/4	3 1/4	3 1/2	3 3/4	4		5 1/2	5 1/2 to 6 1/4	
J	5 1/4	2 1/2	2 1/2	2 3/4	3	3 1/4		5 1/2	5 1.2 to 6 1/4	
S	5 1/4	1 3/4	1 3/4	2 1/4	2 1/2	2 3/4		5 1/2	5 1/2 to 6 1/4	
D	5 1/4	3 1/4	3 1/2	3 1/2	4	4 1/4		5 1/2	5 1/2 to 6 1/4	
1959										
M	5 1/2	3 3/4	3 3/4	4 1/4	4 3/4	5		5-5 3/4	5 1/2 to 6 1/4	
J	5 3/4	5	5	5 1/2	5 3/4	6		5 1/2 to 6	5 1/2 to 6 1/4	
S	5 3/4	5 1/2	5 1/2	6	6 1/4	6 1/2		5 1/2 to 6 1/2	5 1/2 to 6 1/4	
D	5 3/4	5 1/4	5 1/4	5 1/2	5 3/4	6		5 1/2 to 6 1/2	5 1.2 to 6 1/4	
1960										
M	5 3/4	3 1/2	3 7/8	4	4 1/4	4 1/2		5 1/2 to 6 1/2	5 1/2 to 6 1/4	
J	5 3/4	3 3/4	3 3/4	4	4 1/4	4 1/2		5 1/2 to 6 1/2	5 1/2 to 6 1/2	
S	5 3/4	2 1/2	2 1/2	2 3/4	3	3 1/4		5 1/2 to 6 1/2	5 1/2 to 6 1/2	
D	5 3/4	3 3/4	3 3/4	4	4 1/4	4 1/2		5 1/2 to 6 1/2	5 1/2 to 6 1/2	
1961										
M	5 3/4	3 1/4	3 1/4	3 3/4	4	4 1/4		5 1/2 to 6 1/2	5 1/2 to 6 1/2	
J	5 3/4	2 3/4	2 3/4	3	3 1/4	3 1/2		5 1/2 to 6 1/2	5 1/2 to 6 1/2	
S	5 3/4	3	3	3 1/4	3 1/2	3 3/4		5 1/2 to 6 1/2	5 1/2 to 6 1/2	
D	5 1/2	3 1/4	3 1/4	3 1/2	3 3/4	4		5 1/2 to 6 1/2	5 1/2 to 6 1/2	

* Indicate the rates charged

** Indicate yield for each maturity specified on balance sheet questionnaire for short-term paper

Note: Above figures cover Canadian operations only.

FOREIGN AND DOMESTIC SOURCES OF FUNDS*
OF INSTALMENT FINANCE COMPANY

(In Canadian Funds at Historical Rates - Thousands of Dollars)

	1953	1954	1955	1956	1957	1958	1959	1960	1961
1. Bank Loans Outstanding									
In Canada	6,626	3,473	5,702	16,242	17,250	11,800	19,650	13,375	13,250
In U.S.	500	500	500	500	500	500	500	500	1,625
Other Foreign Countries									
Total Outstanding	7,126	3,973	6,202	16,742	17,750	12,300	20,150	13,875	14,875
2. Short-Term Notes Outstanding									
Sold in Canada	1,856	2,459	4,552	6,612	10,425	21,155	16,088	36,522	32,591
Sold in U.S.								5,103	1,500
Sold in Other Foreign Countries							500	5,404	733
Total Outstanding	1,856	2,459	4,552	6,612	10,425	21,155	16,588	47,029	34,824

* Totals to agree with relevant items shown in the liabilities items of the Balance Sheet

Note: Above figures do not take into consideration funds raised by U.S. Subsidiaries.

FOREIGN AND DOMESTIC SOURCES OF FUNDS * (cont'd)

OF INSTALMENT FINANCE COMPANY

(In Canadian Funds at Historical Rates - Thousands of Dollars)

	1953	1954	1955	1956	1957	1958	1959	1960	1961
3. Debentures Outstanding									
Sold in Canada	1,435	1,636	1,913	3,421	5,380	4,266	8,105	9,305	14,429
Sold in U.S.									
Sold in Other Foreign Countries									
Total Outstanding	1,435	1,636	1,913	3,421	5,380	4,266	8,105	9,305	14,429
4. Common Stock Outstanding									
Sold in Canada	11	149	252	1,240	2,281	3,606	4,512	5,756	6,533
Sold in U.S.									
Sold in Other Foreign Countries									
Total Outstanding	11	149	252	1,240	2,281	3,606	4,512	5,756	6,533

* Totals to agree with relevant items shown in the liabilities items of the Balance Sheet

Note: Above figures do not take into consideration funds raised by U.S. Subsidiaries.

FOREIGN AND DOMESTIC SOURCES OF FUNDS *

OF INSTALMENT FINANCE COMPANY

(In Canadian Funds at Historical Rates - Thousands of Dollars)

	1953	1954	1955	1956	1957	1958	1959	1960	1961
3. Debentures Outstanding									
Sold in Canada	1,435	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]									
Sold in Other Foreign Countries									
Total Outstanding	1,435	1,636	1,913	3,421	5,380	4,266	8,105	9,305	14,429
4. Common Stock Outstanding									
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sold in U.S.									
[illegible]									
Total Outstanding	11	149	252	1,240	2,281	3,506	4,512	5,756	6,533

* [illegible]als to agree with relevant items shown in the liabilities items of the Balance Sheet

Note: Above figures do not take into consideration funds raised by U.S. Subsidiaries.

FOREIGN AND DOMESTIC SOURCES OF FUNDS * (cont'd)

OF INSTALMENT FINANCE COMPANY

(In Canadian Funds at Historical Rates – Thousands of Dollars)

	1953	1954	1955	1956	1957	1958	1959	1960	1961
5. Preferred Stock Outstanding									
Sold in Canada	20	150	150	540	514	3174	2982	2872	11,152
Sold in U.S.									
Sold in Other Foreign Countries									
Total Outstanding	20	150	150	540	514	3174	2982	2872	11,152
6. Advances from Parent or Subsidiaries									
In Canada									
In U.S.									
In Other Foreign Countries									
Total Outstanding									

* Totals to agree with relevant items shown in the liabilities items of the Balance Sheet

Note: Above figures do not take into consideration funds raised by U.S. Subsidiaries.

FOREIGN AND DOMESTIC SOURCES OF FUNDS *

OF INSTALMENT FINANCE COMPANY

(In Canadian Funds at Historical Rates - Thousands of Dollars)

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]									
Sold in Canada	20	150	150	540	514	3174	2982	2372	11,152
Sold in U.S.									
Sold in Other Foreign Countries									
Total Outstanding	20	150	150	540	514	3174	2982	2372	11,152
[illegible] Subsidiaries									
[illegible]									
In U.S.									
In Other Foreign Countries									
Total Outstanding									

* Totals to agree with relevant items shown in the liabilities items of the Balance Sheet

Above figures do not take into consideration funds raised by U.S. Subsidiaries.

FINANCE COMPANY AND RETAIL DEALER CREDIT EXTENDED TO CONSUMERS
BALANCES OUTSTANDING

	Instalment Finance Companies 1	Small Loan Companies 2: Instalment Credit 1	Small Loan Companies 2: Cash Loans 3	Department Stores‡: Instalment Credit: Conditional Sale Agreements	Department Stores‡: Instalment Credit: Other Deferred Payment Plans	Department Stores‡: Charge Accounts	Sub-Total ‡	Other Retail Dealers 4: Instalment Credit ‡	Other Retail Dealers 4: Charge Accounts	Total Finance Companies and Retail Dealers 5
	Millions of Dollars									
As at Dec. 31										
1953	516	3	173	101	66		859	183	274	**1,316**
1954	492	6	209	116	70		893	206	293	**1,392**
1955	599	6	273	147	80		1,105	230	294	**1,629**
1956	756	13	343	161	83		1,356	248	306	**1,910**
1957	780	15	347	173	36	53	1,404	271	293	**1,968**
1958	768	19	382	187	37	58	1,451	266	313	**2,030**
1959	806	38	446	250		64	1,604	274	327	**2,205**
1960	828	45	504		368		1,745	267	325	**2,337**
1961	760	35	548		401		1,744	270	335	**2,349**
End of										
1960—Dec.	828	45	504		368		1,745	267	325	**2,337**
1961—Jan.	809	45	499		354		1,707	*	*	*
Feb.	794	44	499		339		1,676	*	*	*
Mar.	785	43	503		332		1,663	252	298†	**2,213†**
Apr.	786	42	508		331		1,667	*	*	*
May	791	42	514		334		1,681	*	*	*
June	799	42	520		336		1,697	252	306	**2,255**
July	810	37	523		328		1,698	*	*	*
Aug.	808	37	526		331		1,702	*	*	*
Sept.	797	37	526		339		1,699	259	311†	**2,269†**
Oct.	784	35	525		347		1,691	*	*	*
Nov.	770	35	536		358		1,699	*	*	*
Dec.	760	35	548		401		1,744	270	335	**2,349**

SOURCES: DOMINION BUREAU OF STATISTICS, DEPARTMENT OF INSURANCE, BANK OF CANADA.

1. Conditional sale agreements held in connection with the financing of retail purchases of consumers' goods.
2. Companies licensed under the Small Loans Act and affiliated companies engaged in making personal loans.
3. Cash loans with no conditional sale contract but usually repaid in instalments.
4. Data are based on DBS series. Excluded from these figures are charge accounts of motor vehicle dealers whose credit is extended mainly to businesses rather than to consumers. From 1953 to 1956 instalment credit includes conditional sale agreements only. Commencing March 1957 it also includes other deferred payment plans which previously had been included in charge accounts.
5. In addition to the items shown here, quarterly figures are available on the use of oil companies' credit cards from Dec. 1956 on. Balances were as follows:

Dec. 1956.........26	Mar. 1960.........37	Mar. 1961.........39
Dec. 1957.........32	June 1960.........42	June 1961.........45
Dec. 1958.........35	Sept. 1960.........51	Sept. 1961.........53
Dec. 1959.........40	Dec. 1960.........43†	Dec. 1961.........47

* Not available. ‡ 1960 and 1961 revised. † Revised.

SELECTED LOANS EXTENDED MAINLY TO INDIVIDUALS FOR NON-BUSINESS PURPOSES BY CERTAIN FINANCIAL INSTITUTIONS★
BALANCES OUTSTANDING

	Chartered Banks Personal Loans: Fully Secured by Marketable Bonds & Stocks 1	Chartered Banks Personal Loans: Home Improvement Loans 2	All Other: Secured by Household Property: Total	All Other: Secured by Household Property: of which secured by motor vehicles	All Other: Other: Total	All Other: Other: of which repayable by instalments 3	Total	Quebec Savings Banks Loans not Secured by Mortgages	Credit Unions Loans not Secured by Mortgages 4	Life Insurance Companies Policy Loans 5
	Millions of Dollars									
As at Dec. 31										
1953	269	–	–	*	308	*	308	8	129	225
1954	253	–	1	*	350	*	351	7	151	240
1955	339	24	4	*	437	*	441	8	174	250
1956	313	38	7	*	428	*	435	11	226	270
1957	257	48	10	*	410	*	421	13	258	295
1958	287	58	29	*	524	*	553	12	320	305
1959	282	60	108	*	610	*	719	13	397	323
1960	286	56	170	*	687	*	857	14	425	344
1961	336	66	224	*188*	805	*295*	1,030	17	*	360
End of										
1961—Mar.	283	56	185	*155*	688	*282*	873	17	*	349
June	303	61	211	*177*	738	*285*	949	18	*	353
July	314	61	*	*	*	*	970	19	*	354
Aug.	312	63	*	*	*	*	995	18	*	355
Sept.	319	64	218	*184*	775	*281*	993	17	*	357
Oct.	330	65	*	*	*	*	1,008	17	*	358
Nov.	329	65	*	*	*	*	1,022	21	*	359
Dec.	336	66	224	*188*	805	*295*	1,030	17	*	360
1962—Jan.	330	66	*	*	*	*	1,044	18	*	361

SOURCES: DEPT. OF FINANCE, DEPT. OF AGRICULTURE, BANK OF CANADA.

★ Excludes mortgage loans.
1. Excludes loans to finance purchase of Canada Savings Bonds
2. Loans under Part IV of the National Housing Act, 1954
3. Includes only loans repayable by equal instalments of principal and interest.
4. Includes caissess populaires.
5. Figures for dates other than year-ends are estimated on the basis of the loans made by twelve companies.

* Not available.

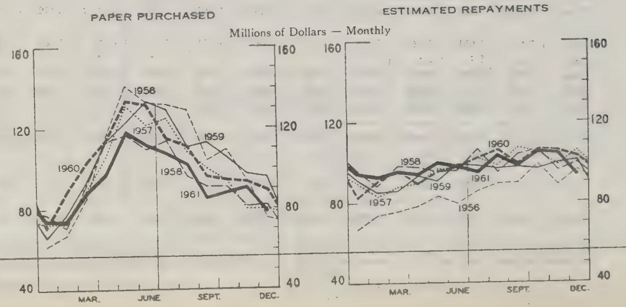
INSTALMENT FINANCE COMPANIES: RETAIL AND WHOLESALE FINANCING

	Consumers' Goods									Commercial and Industrial Goods									Total Retail		
	Paper Purchased			Estimated Repayments [1]			Balances Outstanding (end of period)			Paper Purchased			Estimated Repayments [1]			Balances Outstanding (end of period)			Paper Purchased	Estimated Repayments [1]	Balances Outstanding (end of period)
	Passenger Cars [2]	Other	Total	Passenger Cars [2]	Other	Total	Passenger Cars [2]	Other	Total	Comm. Vehicles [2]	Other	Total	Comm. Vehicles [2]	Other	Total	Comm. Vehicles [2]	Other	Total			
	Millions of Dollars																				
Calendar Years																					
1953	574	145	719	462	114	576	411	105	516	153	76	229	150	62	212	123	61	184	948	787	701
1954	507	124	631	524	131	655	394	98	492	111	63	174	130	64	194	104	60	164	805	850	656
1955	604	156	759	519	132	652	478	121	599	123	95	218	121	70	190	106	[illegible]	192	977	842	791
1956	746	179	925	611	157	768	614	143	756	165	159	324	133	104	236	138	141	279	1,248	1,004	1,035
1957	730	171	900	708	169	877	636	144	780	147	143	291	150	132	282	135	153	288	1,191	1,159	1,067
1958	669	201	870	717	165	881	588	180	768	118	147	265	141	154	295	111	146	257	1,135	1,176	1,026
1959	694	208	903	672	193	865	610	196	806	154	201	356	127	142	269	138	206	344	1,258	1,134	1,150
1960	676	202	878	661	194	855	625	204	828	154	212	366	141	175	317	151	243	393	1,244	1,172	1,222
1961	578	185	763	643	188	831	560	200	760	132	217	349	137	204	341	146	255	401	1,112	1,173	1,161
Monthly																					
1960—June	76	18	94	58	19	77	650	194	844	17	21	38	10	11	21	155	243	399	132	98	1,243
II	219	51	270	169	48	217				48	62	110	31	34	66				380	283	
July	65	17	82	54	18	72	660	194	854	12	21	33	12	19	31	156	245	401	115	102	1,255
Aug.	61	17	78	59	17	76	663	194	856	14	20	34	13	17	30	[illegible]	247	405	112	106	1,261
Sept.	49	17	66	56	15	71	656	195	851	13	17	30	12	16	28	[illegible]	249	407	96	99	1,258
III	175	51	226	169	50	219				39	58	97	37	52	89				323	308	
Oct.	47	18	65	58	16	74	645	197	842	11	18	29	13	19	32	[illegible]	248	404	94	106	1,246
Nov	47	19	67	56	14	70	637	203	839	12	16	27	15	21	36	153	243	395	94	106	1,234
Dec	42	19	61	54	18	72	625	204	828	11	17	28	13	17	30	151	243	393	89	102	1,222
IV	136	56	193	168	48	216				34	51	84	41	57	98				277	313	
1961—Jan.	37	13	50	54	15	69	607	202	809	9	14	23	11	15	25	149	242	391	73	95	1,200
Feb.	41	12	53	52	16	68	596	198	794	8	12	20	11	14	25	147	240	387	73	93	1,180
Mar.	48	13	61	55	15	69	589	196	785	10	18	28	12	14	26	144	244	388	88	96	1,173
I	125	38	163	161	46	206				27	44	71	34	43	77				234	283	
Apr.	55	14	69	53	16	69	591	195	786	12	16	28	12	13	25	145	246	391	97	94	1,176
May	65	17	81	61	15	76	595	196	791	15	21	36	10	13	23	149	254	403	[illegible]	99	1,195
June	62	16	78	53	16	70	604	195	799	13	21	34	11	16	28	151	259	410	[illegible]	97	1,209
II	182	47	228	167	47	214				39	58	98	33	42	76				326	290	
July	59	20	79	53	15	68	610	200	810	11	18	29	11	16	27	150	261	412	107	95	1,222
Aug.	52	17	69	54	17	71	607	201	808	12	21	33	12	20	32	150	262	413	102	103	1,220
Sept.	38	15	53	49	15	63	596	201	797	12	21	33	13	22	35	150	261	411	85	[illegible]	1,208
III	148	52	200	156	46	202				35	60	95	36	58	94				295	[illegible]	
Oct.	43	17	60	55	17	72	585	200	784	11	17	28	13	20	33	147	258	405	88	106	1,190
Nov.	44	15	59	58	16	74	571	199	770	11	20	31	10	20	30	148	258	406	90	104	1,176
Dec.	36	16	52	47	15	62	560	200	760	9	18	27	12	20	32	146	255	401	79	94	1,161
IV	123	48	171	159	49	208				31	55	86	34	61	95				257	303	

	Wholesale			Total Retail and Wholesale			Average Repayment Terms on Retail Paper Purchased			
	Paper Purchased	Estimated Repayments [1]	Balances Outstanding (end of period)	Paper Purchased	Estimated Repayments [1]	Balances Outstanding (end of period)	Passenger Cars and Commercial Vehicles: New	Passenger Cars and Commercial Vehicles: Used	Other Consumer Goods	Other Comm. & Industrial Goods
	Millions of Dollars						Months			
Calendar Years										
1957	1,185	1,165	202	2,376	2,324	1,269	*	*	*	*
1958	1,105	1,116	191	2,239	2,293	1,216	24.1	17.0	20.1	25.1
1959	1,307	1,301	197	2,565	2,435	1,346	25.2	17.6	23.2	26.9
1960	1,354	1,321	229	2,597	2,493	1,451	25.9	17.6	23.3	27.9
1961	1,230	1,280	179	2,342	2,453	1,340	26.5	17.9	24.4	29.8
Quarterly										
1960—II	422	437	268	802	720	1,511	25.9	17.8	23.7	26.9
III	196	304	160	519	613	1,418	26.8	17.6	24.5	28.3
IV	357	288	229	634	600	1,451	25.6	17.3	22.8	28.7
1961—I	303	277	255	538	561	1,428	25.7	18.1	22.8	30.1
II	366	400	221	692	690	1,429	26.4	17.8	26.7	26.6
III	200	296	125	495	592	1,332	27.4	17.7	24.6	31.5
IV	361	307	179	618	610	1,340	26.6	17.9	23.4	30.8

~~SOURCE: Dominion Bureau of Statistics.~~
1. Repayments are estimated by subtracting the net change in balances outstanding during a period from the paper purchased. The figure therefore also includes cancellations and any other adjustments to the two reported series.
2. New and used vehicles.
* Not available.

RETAIL FINANCING



CHARTERED BANKS
Quarterly Classification of General Loans*

	1956	1957				1958				1959				1960				1961			
	Dec. 31	Mar. 31[1]	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
	Millions of Dollars																				
Personal																					
Fully secured by marketable stocks and bonds[2]	313.3	290.4	292.6	281.7	256.6	275.9	284.3	286.6	287.0	296.8	303.2	313.1	282.3	284.3	289.7	284.4	286.4	283.4	302.7	318.9	335.6
Home Improvement Loans[3]	37.9	39.4	40.8	45.9	48.0	47.6	51.2	52.6	57.6	60.0	62.2	63.8	59.9	55.5	55.9	55.3	56.0	56.1	60.6	64.3	65.7
Loans on the security of household property	7.3	7.7	8.8	9.7	10.2	11.7	14.5	16.5	29.4			104.4	108.4	119.9	141.1	170.0	170.0	184.5	210.6	218.3	224.4
Of which on the security of motor vehicles	•	•	•	•	•	•	•	•	•			•	•	•	•	•	•	*155.3*	*177.0*	*183.5*	*187.6*
Other personal loans	427.6	407.9	419.0	410.3	410.3	418.7	459.4	482.4	523.9	608.5	715.1	652.8	610.3	589.9	648.2	655.6	686.7	688.4	737.9	775.0	805.3
Of which repayable by instalments[4]	•	•	•	•	•	•	•	•	•			•	•	•	•	•	•	*282.5*[4]	*285.0*[4]	*280.6*[4]	*294.8*[4]
Total Personal	786.1	745.4	761.2	747.5	725.1	753.9	809.4	838.0	898.0	965.3	1,080.6	1,134.0	1,060.9	1,049.6	1,134.8	1,165.3	1,199.2	1,212.5	1,311.8	1,376.6	1,431.0
Farmers																					
Farm Improvement Loans	129.7	121.2	127.8	135.8	125.4	118.0	129.8	136.6	139.3	136.6	153.4	170.8	160.2	154.6	167.4	182.6	178.1	174.5	190.6	199.3	194.3
Other farm loans	227.0	187.9	201.5	220.9	223.7	181.3	202.9	226.8	228.5	191.2	205.8	240.8	229.3	193.3	219.9	250.6	241.5	217.1	250.6	276.4	290.7
Total Farm	356.7	309.1	329.2	356.7	349.1	299.3	332.7	363.4	367.8	327.8	359.2	411.6	389.5	347.9	387.3	433.2	419.6	391.6	441.1	475.6	485.1
Business																					
Industry																					
Chemical and rubber products	63.4	73.3	75.1	70.2	71.2	76.8	67.0	65.7	63.4	70.7	66.7	69.7	67.6	71.8	60.4	54.8	49.2	56.1	57.4	51.5	50.0
Electrical apparatus and supplies	62.9	58.9	67.9	66.5	53.4	55.0	56.7	59.8	54.6	53.1	64.5	71.1	58.2	65.5	74.0	71.7	60.9	65.0	70.1	72.0	67.3
Food, beverages and tobacco	207.9	192.2	196.5	215.6	234.5	197.8	196.1	200.7	207.7	180.4	183.2	218.7	211.8	170.0	155.9	[illegible]	229.3	183.7	185.8	209.0	243.0
Forest products	196.2	236.0	246.4	234.7	207.6	221.7	183.1	163.8	155.1	176.6	180.7	169.6	165.2	190.8	189.0	[illegible]	179.7	198.7	189.4	180.6	185.7
Furniture	22.7	22.5	22.9	22.8	20.3	20.8	21.8	21.6	21.2	21.8	24.3	25.1	23.3	24.5	26.5	26.7	24.4	26.1	28.1	28.2	28.0
Iron and steel products	150.9	195.7	212.6	194.5	164.7	189.8	186.1	154.1	156.7	187.3	194.2	197.1	188.9	227.0	258.7	223.3	197.7	209.9	198.3	194.4	206.0
Mining and mine products	101.0	119.3	146.2	167.9	169.1	170.0	157.5	145.4	135.3	115.7	114.8	121.6	110.0	110.1	101.6	91.6	85.9	86.4	95.1	90.3	101.3
Petroleum and products	144.7	134.1	99.9	97.5	108.2	104.9	84.7	88.1	98.9	103.8	104.1	92.8	98.2	94.7	96.3	111.2	116.4	104.7	102.8	100.0	102.6
Textiles, leather and clothing	157.5	171.0	170.9	185.8	150.3	169.2	162.9	171.7	139.4	158.8	177.4	193.8	160.9	190.5	192.5	201.6	161.0	182.3	185.2	198.9	170.4
Transportation equipment	48.4	60.9	71.5	70.0	68.6	80.5	78.2	79.8	73.4	81.0	91.6	75.4	74.5	76.1	70.5	61.5	62.2	75.9	81.4	92.5	111.3
Other products	59.9	63.1	67.2	72.1	61.9	63.9	66.2	65.9	60.3	63.4	73.2	81.1	73.0	77.2	83.5	85.4	74.2	83.1	95.2	108.4	103.3
Sub-total: Industry	1,215.8	1,326.9	1,377.0	1,397.7	1,309.7	1,350.3	1,260.5	1,216.6	1,165.9	1,212.5	1,274.6	1,315.9	1,231.7	1,298.2	1,309.4	1,286.4	1,241.0	1,271.8	1,288.7	1,325.9	1,369.0
Public utilities, transportation & communications	151.9	177.7	168.3	178.4	173.1	145.6	194.0	133.1	133.7	121.8	180.5	167.9	170.1	160.4	140.8	153.1	216.7	183.6	160.1	164.7	165.4
Of which provincially guaranteed	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	*6.4*	*5.2*	*6.1*	*6.7*
Construction contractors	312.2	298.7	316.3	299.7	253.5	239.2	267.8	275.1	261.9	279.4	344.1	357.6	308.2	307.3	345.6	339.5	309.0	303.2	331.8	345.8	315.6
Merchandisers[5]	690.0	731.3	759.8	758.0	724.5	702.8	707.5	707.1	699.3	742.0	827.1	853.7	821.5	834.5	894.4	879.7	858.4	869.5	914.9	897.1	888.6
Other business[6]	394.7	384.4	410.3	424.9	412.7	415.2	448.3	427.3	471.7	509.7	579.1	593.3	551.8	549.2	576.5	586.5	594.5	638.6	745.4	781.7	784.3
Total Business	2,764.6	2,918.9	3,031.8	3,058.8	2,873.6	2,853.2	2,878.1	2,759.2	2,732.4	2,865.4	3,205.4	3,288.4	3,083.3	3,149.7	3,266.7	3,245.2	3,219.5	3,266.8	3,440.8	3,515.2	3,522.9
Of which under the Small Businesses Loans Act	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	*1.9*	*10.1*	*17.3*	*23.7*
Religious, educational, health and welfare institutions	90.3	82.9	91.3	104.1	115.0	116.9	113.8	124.9	139.6	153.3	161.4	158.1	167.8	166.6	168.2	178.4	193.8	182.0	188.0	192.0	208.3
Total General Loans	3,997.7	4,056.4	4,213.4	4,267.1	4,062.7	4,023.2	4,134.0	4,085.5	4,137.8	4,311.8	4,806.5	4,992.1	4,701.4	4,713.7	4,957.1	5,022.1	5,032.1	5,052.8	5,381.8	5,559.4	5,647.2

Sources: Department of Finance, Bank of Canada

★ Some items are partly estimated prior to September 1957 and for March and June 1959.

1 Figures subsequent to January 31, 1957 are not strictly comparable with those for earlier dates. See footnote 16, page 7.
2. Excludes loans to finance the purchase of Canada Savings Bonds which are shown on page 7.
3 Loans under Part IV of the National Housing Act, 1954
4. Includes only loans repayable by equal instalments of principal and interest.
5. Includes loans to finance companies which are affiliates of retail merchandisers.
6. Includes loans to "trust, mortgage, investment and insurance companies and other financial institutions" formerly shown as a separate classification.
• Not available.

QUEBEC SAVINGS BANKS[1]

	Assets: Cash [2]	Assets: Canadian Securities: Govt. of Canada [3, 4]	Assets: Canadian Securities: Provincial [3, 4]	Assets: Canadian Securities: Municipal [4]	Assets: Canadian Securities: Other	Assets: Mortgages	Assets: Other Loans	Assets: All Other Assets [5]	Total Assets or Liabilities	Liabilities: Secured Advances from Chartered Banks	Liabilities: Deposits: Govt. of Canada	Liabilities: Deposits: Other	Liabilities: All Other Liabilities [6]
	Millions of Dollars												
As at Dec. 31													
1954	19.5	64.7	68.0	46.9	15.6	12.7	7.5	8.1	**242.9**	3.0	0.3	227.4	12.1
1955	18.5	54.9	80.0	56.7	16.2	19.7	8.2	10.9	**265.1**	5.3	0.4	246.9	12.5
1956	20.3	44.9	83.2	56.0	15.4	29.6	11.0	12.4	**272.7**	7.7	0.3	252.0	12.7
1957	26.3	38.8	85.6	52.2	16.8	40.8	12.8	12.5	**285.7**	4.7	9.9	257.8	13.3
1958	24.7	28.2	102.1	53.3	18.1	50.7	12.1	13.7	**302.9**	4.1	6.7	278.2	14.0
1959	26.4	28.2	89.7	46.5	21.2	57.8	13.2	14.9	**298.0**	2.0	12.2	269.8	14.0
1960	25.6	38.7	86.7	40.7	25.2	61.0	14.5	19.0	**311.4**	1.6	5.6	289.2	15.0
1961	24.1	36.7	88.7	44.3	24.9	77.3	17.0	22.5	**335.5**	2.6	7.3	310.0	15.6
End of													
1961—Jan.	26.1	35.5	86.7	41.2	26.2	61.5	19.2	16.5	**313.0**	1.3	3.6	293.3	14.7
Feb.	25.0	37.6	86.6	41.3	25.2	62.1	16.9	19.5	**314.2**	1.0	1.3	297.2	14.7
Mar.	23.3	39.2	86.8	42.1	25.3	63.1	17.1	20.8	**317.7**	1.4	0.1	301.7	14.5
Apr.	24.9	39.5	87.4	42.8	25.7	63.6	[illegible]	19.0	**320.6**	1.0	0.1	305.0	14.4
May	24.9	35.6	87.9	42.6	25.7	65.0	[illegible]	19.7	**321.2**	3.6	0.2	303.0	14.4
June	26.1	34.7	87.8	42.1	25.7	66.6	[illegible]	22.5	**323.3**	3.3	0.3	305.1	14.7
July	26.9	33.5	88.1	43.0	25.5	68.2	19.0	20.3	**324.5**	1.6	0.2	308.1	14.5
Aug.	26.9	34.2	87.8	42.9	25.6	70.3	18.3	20.6	**326.6**	1.5	0.2	310.4	14.6
Sept.	27.0	34.2	88.1	44.2	25.3	72.3	16.7	19.9	**327.9**	1.0	0.3	312.1	14.5
Oct.	25.6	35.4	89.1	44.5	24.8	74.0	17.4	19.9	**330.6**	1.8	0.6	313.6	14.6
Nov.	26.3	35.6	89.0	[illegible]	24.9	75.5	21.4	20.6	**336.3**	2.8	11.7	307.2	14.7
Dec.	24.1	36.7	88.7	44.3	24.9	77.3	17.0	22.5	**335.5**	2.6	7.3	310.0	15.6
1962—Jan.	24.2	35.8	87.7	46.5	25.5	78.3	17.6	20.1	**335.6**	1.9	3.9	314.5	15.3

SOURCE: BANK OF CANADA.

1. Operating under the federal Quebec Savings Banks Act.
2. Bank of Canada notes plus deposits with Bank of Canada and chartered banks. Beginning in 1956 excludes deposits in foreign currencies with chartered banks.
3. Beginning in 1956 figures for holdings of Government of Canada and provincial government securities are based on "amortized value" and are therefore not directly comparable with preceding figures which are based on "not exceeding market value".
4. Includes guaranteed bonds.
5. Includes bank premises, poor fund and charity fund investments, deposits with and balances due from other banks (not included elsewhere) and other assets.
6. Shareholders equity (capital, rest account and undivided profits at latest financial year-end), poor fund and charity fund trust and other liabilities.

NOTE: FOR BACK DATA SEE THE "STATISTICAL SUMMARY — SUPPLEMENT 1960", PAGE 97.

INDUSTRIAL DEVELOPMENT BANK

	Assets: Loans Outstanding [1, 2]	Assets: All Other Assets	Total Assets or Liabilities	Liabilities: Capital and Reserves	Liabilities: Bonds and Debentures Outstanding	Liabilities: All Other Liabilities	Loan Transactions: Disbursements (during period) [2]	Loan Transactions: Repayments (during period) [2]	Loans outstanding plus undisbursed authorizations: Amount [1]	Loans outstanding plus undisbursed authorizations: Number of Customers on Books
	Millions of Dollars									*Number*
As at Sept. 30										
1955	44.0	2.0	**46.0**	33.0	9.5	3.5	12.7	10.7	52.3	693
1956	52.2	0.9	**53.1**	34.6	17.7	0.8	20.1	12.0	76.9	820
1957	71.9	1.9	**73.8**	36.1	35.5	2.2	32.6	12.9	88.3	1,022
1958	88.8	1.6	**90.4**	37.9	51.0	1.5	31.2	14.2	104.3	1,322
1959	96.9	1.8	**98.7**	39.4	57.7	1.6	29.3	20.5	109.3	1,609
1960	103.1	3.7	**106.8**	41.8	63.6	1.4	29.7	23.5	120.0	1,967
1961	123.3	1.7	**125.0**	44.2	78.9	1.9	47.5	27.3	154.7	2,769
End of										
1961—Jan.	107.5	1.6	**109.1**	41.8	65.5	1.8	3.4	1.8	125.0	2,140
Feb.	108.5	1.6	**110.1**	41.8	66.2	2.1	2.6	1.6	128.7	2,194
Mar.	110.8	1.7	**112.5**	41.8	68.2	2.5	4.4	2.0	134.1	2,252
Apr.	112.8	1.8	**114.6**	41.8	71.2	1.6	4.7	2.7	134.7	2,310
May	115.2	1.8	**117.0**	41.8	73.3	1.9	4.3	2.0	138.9	2,421
June	115.9	1.9	**117.8**	41.8	73.7	2.3	3.6	2.8	143.3	2,508
July	117.7	1.9	**119.6**	41.8	75.0	2.8	5.5	3.7	147.1	2,601
Aug.	120.7	1.9	**122.6**	42.8	76.6	3.2	5.1	2.0	150.1	2,691
Sept.	123.3	1.7	**125.0**	44.2	78.9	1.9	4.9	2.4	154.7	2,769
Oct.	126.4	2.0	**128.4**	44.2	83.3	0.9	5.5	2.3	157.0	2,848
Nov.	130.0	1.7	**131.7**	45.2	85.5	1.0	5.8	2.3	163.9	2,987
Dec.	133.4	1.7	**135.1**	45.2	88.4	1.5	5.7	2.3	167.9	3,086
1962—Jan.	136.3	1.7	**138.0**	45.2	90.8	2.0	5.9	2.9	172.5	3,178

SOURCE: INDUSTRIAL DEVELOPMENT BANK.

1. Includes small amount of investments (less than $0.6 million at Jan. 31, 1962).
2. The change in loans outstanding does not equal the difference between disbursements and repayments because of financial year-end accounting adjustments.

CHARTERED BANKS: EARNINGS, EXPENSES & ADDITIONS TO SHAREHOLDERS' EQUITY & INNER RESERVES

Financial Years[1]: Ending in	1956	1957	1958	1959	1960	1961
	Millions of Dollars					
Current Operating Earnings						
Interest and discount on loans	314.2	380.6	386.9	455.1	525.5	540.5
Interest, dividends and trading profits on securities[2]	102.8	118.4	160.5	169.4	182.3	196.6
Exchange, commission, service charges and other current operating earnings	96.5	109.5	126.0	122.3	134.6	143.1
Total Current Operating Earnings	513.5	608.5	673.4	746.8	842.4	880.2
Current Operating Expenses[3]						
Interest on deposits	129.1	183.4	203.4	241.2	270.9	290.8
Remuneration to employees	167.8	188.3	198.0	211.6	229.7	243.8
Contributions to pension funds	14.0	13.8	12.3	13.1	13.2	13.3
Provision for depreciation of bank premises	11.4	12.7	14.3	16.4	18.4	19.6
Other current operating expenses[3,4]	77.5	86.0	91.9	102.5	113.7	122.8
Total Current Operating Expenses[3]	399.8	484.2	519.9	584.8	645.9	690.3
Net current operating earnings[3]	113.7	124.3	153.5	162.0	196.5	189.9
Add: Capital profits and non-recurring items[5]	3.1	0.4	1.5	3.3	3.7	1.5
Less: Provision for losses and addition to inner reserves, net[6]	*14.1*	*2.8*	*16.0*	*32.3*	*25.2*	*−10.6*
Less: Provision for income taxes[7]	*41.7*	*56.6*	*69.6*	*65.2*	*90.7*	*101.7*
Leaving for dividends and shareholders' equity	61.0	65.3	69.4	67.8	84.3	100.3
Of which: Dividends to shareholders	31.9	35.4	40.0	47.6	54.0	57.8
Addition to shareholders' equity	29.1	29.9	29.4	20.2	30.3	42.5
Additions to Shareholders' Equity						
Undivided profits						
From operating earnings, net after transfers to rest account	−5.7	3.2	−1.5	2.7	−2.2	1.0
Rest account						
From operating earnings and undivided profits	15.9	8.0	14.2	9.0	16.8	14.5
From retransfers from inner reserves	19.0	18.7	16.8	8.5	15.7	27.1
From premium on new shares	42.1	33.3	28.6	72.7	36.2	14.6
Capital paid up						
From issue of new shares	14.2	16.5	10.5	31.7	11.5	9.4
Net addition to shareholders' equity	85.5	79.7	68.6	124.7	78.0	66.6

Additions to Shareholders' Equity and Inner Reserves in 25-Year Periods

	1932-1956	1933-1957	1934-1958	1935-1959	1936-1960	1937-1961
	Millions of Dollars					
Shareholders' Equity						
Undivided profits						
From operating earnings, net after transfers to rest account	−2.9	3.5	1.0	3.1	0.5	1.4
Rest account						
From operating earnings and undivided profits	100.4	107.6	121.4	130.1	146.8	160.2
From retransfers from inner reserves, net	88.9	108.5	155.1	163.9	179.7	206.8
From premium on new shares	99.9	133.2	161.9	234.3	270.5	285.2
Capital paid up						
From issue of new shares	50.7	67.2	77.7	108.5	120.0	129.4
Net addition to shareholders' equity	337.0	420.0	517.1	639.9	717.5	783.0
Inner Reserves						
From operating earnings and capital profits	510.4	510.4	524.0	552.1	570.4	572.9
Less: Amount retransferred to rest account	*88.9*	*108.5*	*155.1*	*163.9*	*179.7*	*206.8*
Less: Losses on loans and investments[2,8,★]	*212.4*	*198.0*	*173.4*	*180.6*	*165.6*	*161.0*
Net addition to inner reserves	209.1	203.9	195.5	207.6	225.1	205.1
★ Ratio of average annual loss experience to related assets	.292%	.253%	.206%	.198%	.167%	.151%

SOURCES: Department of Finance and annual reports of chartered banks.

1. In 1961, five banks ended their financial year on Oct. 31, two on Nov. 30, and one on Sept. 30.
2. Realized profits and losses on disposal of securities are included in operating earnings.
3. Before provision for income taxes, losses, and transfers to inner reserves.
4. Includes taxes other than income taxes.
5. Profits and losses on sale of fixed assets and adjustments relating to prior years.
6. After amounts retransferred to rest account.
7. Includes income taxes on taxable portion of additions to and amounts retransferred from inner reserves, and foreign income taxes.
8. Losses and provision for losses on loans and provision for market valuation of investments other than Government of Canada securities and provincial government securities, less recoveries.

CREDIT UNION STATISTICS - CANADA

(Credit Union Yearbook - published by Credit Union National Association, Madison, Wisconsin)

A

	Number of Credit Unions	Number of Members (millions)	Outstanding Loans (millions)	Reserves (millions)	Total Assets (millions)
1960	4,529	2.528	804.1	54.4	1,287.6
1959	4,556	2.355	731.4	50.2	1,147.6
1958	4,437	2.224	596.0	46.7	1,008.1
1957	4,351	2.199	554.6	39.2	884.4
1956	4,275	1.993	489.5	28.0	791.0
1955	4,073	1,761	372.3	31.0	637.9
1954	3,879	1.582	335.2	26.9	590.4
1953	3,548	1.476	301.4	20.3	496.5
1952	3,335	1.250	154.2	16.6	424.6

B

Following are Credit Union Statistics (Canada) from the Credit Union Yearbook 1961

Personal Savings (1960)	Credit Unions 12.76%: Chartered Banks 77.10%: Other Banks 4.86%: Trust and Loan Companies 5.28%
Instalment Loans (1960)	Credit Unions 15.18%: Instalment Finance Companies 27.82%: Chartered Banks 28.90%: Small Loan Companies 18.52%: Quebec Savings Banks .47%: Retail Dealers 9.11%

C

Instalment Credit Outstanding at Year End

	Instalment Finance Co.	Small Loans Co.	Dept. Stores	Other Retailers	Banks	Quebec Savings	Credit Union Loans not Secured by Mortgages
1960							425
1959	806	484	250	274	719	13	397
1958	768	401	224	266	553	12	320
1957	780	362	209	271	421	13	258
1956	756	356	161	248	435	11	226
1955	599	279	147	230	441	8	174
1954	492	215	116	206	352	7	151
1953	516	176	101	183	308	6	129
1952	373	148	80	163	242	6	94
1951	180	114	27	96	---	--	---

Source: Credit Union Year Book - 1961

B R . F

OF INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

SUBMITTED TO THE ROYAL COMMISSION ON BANKING AND FINANCE

ROYAL COMMISSION ON BANKING AND FINANCE

BRIEF PRESENTED BY INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

TABLE OF CONTENTS

SECTION VII

LIST OF TABLES

SECTION IV
WHOLESALE, BUSINESS, INDUSTRIAL AND COMMERCIAL CREDIT

SECTION V
FINANCIAL ANALYSIS OF INDUSTRIAL ACCEPTANCE CORPORATION
All Tables in Appendix 2

SECTION VI
SOME SOCIAL ASPECTS OF CONSUMER CREDIT
All Tables in Appendix 3

SUMMARY AND RECOMMENDATIONS

OF

BRIEF SUBMITTED BY

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

Executive Offices
1320 Graham Boulevard,
TOWN OF MOUNT ROYAL, QUEBEC

TO

ROYAL COMMISSION ON BANKING AND FINANCE

Industrial Acceptance Corporation Limited is a publicly-owned Canadian Company, and is managed by Canadians. It is the largest sales finance company in Canada and has no association or affiliation with any manufacturing or merchandising organizations, other than in the usual course of business.

Companies carrying on the sales finance business in Canada include subsidiaries of manufacturers, subsidiaries of merchandising outlets, subsidiaries of foreign-based sales finance companies and Canadian companies. The differing purposes, controls and other factors affecting the varying units of the composite of the industry has made it advisable to make this submission, so that there may be available to the Commission separately the picture of a large independent Canadian sales finance operation in diversified fields. The experience, profits, financial structure and growth of such a corporation are presented to show that the publicly-owned sales finance company fills a much-needed place in the financial structure of the Canadian economy. Furthermore, our statistical resources have enabled us to supply data not publicly available heretofore, which it is hoped will be useful to the Commission.

NATURE OF IAC'S BUSINESS

As a sales finance company operating over 140 branches from coast to coast, IAC provides credit resources and services to manufacturers, distributors and dealers which include (a) credit investigation service, (b) credit counsel, (c) the intricate accounting relative to instalment receivables, (d) collection of monthly instalments, (e) insurance coverage,

SUMMARY AND RECOMMENDATIONS

OF

BRIEF SUBMITTED BY

[illegible]

[illegible]

TOWN OF MOUNT ROYAL, [illegible]

TO

ROYAL COMMISSION ON BANKING AND FINANCE

Industrial Acceptance Corporation Limited is a publicly-owned Canadian Company, and is managed by Canadians. It is the largest sales finance company in Canada and has no association or affiliation with any manufacturing or merchandising organizations, other than in the usual course of business.

Companies carrying on the sales finance business in Canada include subsidiaries of manufacturers, subsidiaries of merchandising outlets, subsidiaries of foreign-based sales finance companies and Canadian companies. The differing purposes, controls and other factors affecting the varying units of the composite of the industry has made it advisable to make this submission, so that there may be available to the Commission separately the picture of a large independent Canadian sales finance operation in diversified fields. The experience, profits, financial structure and growth of such a corporation are presented to show that the publicly-owned sales finance company fills a much-needed place in the financial structure of the Canadian economy. Furthermore, our statistical resources have enabled us to supply data not publicly available heretofore, which it is hoped will be useful to the Commission.

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As a sales finance company operating over 140 branches from [illegible]

(f) merchandising help and other services necessary to permit the merchant to make sales of durable goods safely, on reasonably extended credit terms, on his own premises and with his own staff. In many cases, it provides the credit services and facilities that allow the merchant to acquire and maintain inventories.

IAC does not lend money to the individual consumer nor does it deal with the consumer other than as a recipient of the amounts due under contracts which the company has purchased from merchants. It specializes in providing retail merchants (mostly sellers of durable goods) with funds and services which enable them to operate efficiently and to compete with those merchants whose volume of business permits extension of their own instalment credit service.

In addition to its sales financing services (discounting instalment plan contracts) for merchants dealing in consumer durable goods and durable goods used in business and industry, IAC also provides a capital loan service, and a leasing and lease financing service, for all sizes of Canadian business in amounts and for periods which are not usually attractive to the underwriter of securities or to the chartered banks.

Through its affiliated and subsidiary companies IAC carries on other related branches of business. Industrial-Talcott Limited, an affiliate, provides receivable financing, factoring and specialized financial services for business of all types.

Niagara Finance Company Limited, a subsidiary, carries on the consumer loan business, serving individual borrowers directly.

Merit Insurance Company, another subsidiary, provides insurance protection (other than life) for many IAC customers and others.

Together with its subsidiaries, IAC employed 2,987 people and had assets of $607 million at December 31st, 1961. It serves thousands of manufacturer, distributor and dealer customers, and through them an average of over half a million individual and business consumers.

[illegible]

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The purpose of this brief, however, is to deal primarily with the position of IAC as a sales finance company.

Sales finance credit is an inseparable part of a credit sale-purchase transaction. The sales finance company is an essential partner in the mass production, distribution and consumption system of Canada. In every sector of the economy sales financing makes possible the movement of durable goods from manufacturer through distributor and dealer to the ultimate individual or business consumer with an efficiency that would not be possible if this kind of financing service did not exist.

The policy of IAC has been to extend credit soundly and at a competitive cost. The mechanism of a sales finance operation is delicately balanced to adapt to changing needs and conditions and, when left free to do so, it re-acts to economic forces in the best interests of the economy as a whole, as well as in the interests of individual and business customers. Undue interference with the mechanism of the sales finance company will adversely affect Canada's distribution system as it applies to small and medium size business and the freedom of choice of the individual consumer. It could result in undue discrimination against the small merchant in favour of the large one, the time buyer in favour of the cash buyer, and the independent sales finance company in favour of other financial institutions.

SPECIFIC OBSERVATIONS, CONCLUSIONS AND RECOMMENDATIONS

1. The position of the sales finance company in the economy. Large as the financial resources of IAC may be, it nevertheless does not take deposits in any form, nor does it play any part in the creation of credit. It therefore has no effect on the amount of money and credit available and, in consequence, does not fall within the concept of a banking institution. The varying maturities of the composites of its debt structure and the relatively high percentage of equity to total funds employed provide a high degree of flexibility and liquidity in its operations. The nature of this debt related to the maturity and nature of the receivables which form the major lines of business of IAC gives

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it a logical, essential and particular position among the financial institutions operating in Canada. Looked at in this light, the sales finance company is seen to occupy a position about half way between institutions such as chartered banks which employ short term and deposit funds and should logically lend such funds on a demand and short term basis, and other institutions which employ long term funds essentially for the purpose of long term investments.

The sales finance institution is highly specialized and among the various types of financial institutions it is the best equipped to provide medium term instalment credit for the purchase of consumer and industrial durable goods, as well as medium term capital financing.

2. Consumer Credit Controls

The control of consumer credit cannot be accomplished by measures directed only at the sales finance companies because over 80% of all consumer credit is supplied by other sources as reported by the Bank of Canada in its monthly statistical summary.

Also, within the sales finance industry are important segments which, by reason of their ownership and sources of funds are, to a great extent, able to mitigate the effectiveness of monetary measures intended to relate to the sales finance industry as a whole.

Vigorous monetary and fiscal policies have a decisive impact on the activities of the independent Canadian sales finance company, as is well illustrated by the experience of IAC in the 1955-1956 period as outlined in the brief. Therefore, we submit that a combination of such policies with clear signals from the central bank will enable cyclical objectives to be reached and that such methods are to be preferred over selective controls.

3. The Sales Finance Industry and other Competitive Financial Institutions

a) Chartered Banks.

(i) As most chartered banks are actively engaged in the consumer credit field, we question if they should be used at the same time

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[illegible]

[illegible]

[illegible]

as the agency for imposing monetary and credit restrictions on sales finance and consumer loan companies with which they compete.

(ii) For years IAC has attempted to maintain a policy of requiring adequate down payments and limited payout periods. With the vigorous participation of some chartered banks in the consumer credit field there has been a noticeable tendency towards less conservative terms with a competitive effect which has, to an extent, required acceptance of terms in a somewhat comparable fashion by the sales finance companies. The Commission may wi[illegible] [illegible]o examine the question of whether this more liberal approach to the extension of credit is desirable.

(iii) While much publicity has been given to the maximum limitation on interest rates under the Bank Act, the chartered banks have adopted various devices to cover the higher expenses they incur in handling consumer instalment loans, while still appearing to remain within the requirements of the Bank Act. A review of such devices would appear to be indicated.

b) Credit Unions

Credit Unions now provide almost 10% of total outstanding consumer credit as reported by the Bank of Canada in its monthly statistical summary. This may be compared with the less than 20% shown as being provided by sales finance companies.

Tax-exempt because of the praiseworthy purposes for which they were originally created, many of these organizations, particularly the larger ones, appear to have expanded far beyond their original purposes and now to have the characteristics of commercial operations. The tax-exempt status of such organizations, to the extent that they have extended into the commercial field in competition with tax-paying companies, is, we submit, worthy of examination. Such an examination might well include an analysis of loan receivables, including the purpose of loans, and average amounts and terms. It could also encompass the question of the adequacy of the safeguards and liquidity of funds deposited with these organizations.

We recommend that credit unions be encouraged to continue in their praiseworthy efforts to encourage thrift but that they be restricted to making investments of a type approved for insurance companies registered under the Canadian and British Insurance Companies' Act. This would channel a substantial volume of lending into areas where it would produce tax revenue and would provide greater safety and liquidity for credit union members with probably greater net returns.

c) Business, Commercial and Industrial Financing

We have been financing the purchase of revenue-producing and labour-saving machinery and equipment for over 30 years and this segment of our business plus other financial plans and services in the business and industrial sector are an increasingly important part of our activities.

In this field, we have become increasingly affected by competition from Government-owned or Government-controlled financial institutions and from Government-guaranteed plans. Particularly, we express our strong disapproval of recent activities and lending practices of the Industrial Development Bank. Our Brief shows that we have suffered an important loss of business due to this form of state competition and we submit that such activities are wholly inconsistent with the concepts of a private enterprise economy and the purpose for which the Industrial Development Bank was created. We recommend that the Commission review the activities of the Industrial Development Bank to determine if, in fact, a vacuum exists in the credit services available in this country which requires the facilities of a state-owned bank. If it is found that such a gap exists, the activities of this state-owned enterprise should be confined to filling it.

(d) Captive Finance Companies

Manufacturers' or distributors' captive finance companies account for a considerable portion of instalment sales credit granted in Canada. They exist for the primary purpose of aiding in the marketing of their parent companies' goods.

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The operations of such captive companies are conducted in an environment which is essentially insulated from the pressures of competition to which non-captive finance companies are subjected. Also, they may well be less responsive to monetary policy because of resources available directly or indirectly through their parent companies. It would seem, therefore, that this Royal Commission might address itself to a study of these captive institutions and their role in the Canadian economy.

4. Finance Charge Disclosure

Proposals have been made that Parliament should enact a law that merchants and others extending instalment sales credit state the difference between the cash price and the time price, i.e., credit service charges, in terms of annual rates of interest.

Our Brief discusses this subject and sets out the views that (1) it is neither practical for the merchant, nor useful to the consumer to state the time price differential as a rate of interest per annum, (2) it should be and is stated in dollars, (3) we support dollar disclosure, such as has been made permissible by legislation of the Province of Alberta, as the best method for consumer comparison of the cost of credit and (4) that the effect of an annual interest rate method of disclosure could well be to drive the real cost of credit underground and could eventually result in the time price being the only one quoted, with a discount for cash.

5. Consumer Credit Terminology and Statistics

The growth of many alternative sources of consumer credit in the postwar period has not been accompanied by standardization of terminology and definitions, nor by sufficiently comprehensive statistics. There is a classification and definition of terms used in the Brief and it is suggested that definitions and standard terminology in the area of consumer credit, as well as more adequate statistical standards, should be developed as part of the studies of this Royal Commission.

6. CONCLUSION

Broadly speaking, the credit granting institutions in this country may be divided into three principal categories.

The chartered banks, because they employ for the most part short term deposit money, are the logical purveyors of short term commercial credit which would place them at one end of the credit spectrum.

At the other end are found t institutions which have available to them long term money such as life insurance companies, mutual and pension funds, etc. Therefore they are the logical suppliers of long term credit such as mortgages, and investments such as bonds and debentures.

About mid-way between is the sales finance industry serving the requirements of consumers and business by way of supplying medium and semi-long term instalment credit and inventory credit which are appropriate to the kind of money employed. This industry typically has a relatively high percentage of equity to debt and a high percentage of its debt is in itself of a medium and long term character.

Molded from long experience and necessity, each type of credit granting institution has a specialized form of capital and debt structure which fits it for its own particular role in the economy. This is especially true of the sales finance companies which have a capital and debt structure unique for their own special role in serving our financial and commercial community, and through them, the individual consumer and business users of instalment credit. A sales finance company is highly specialized in the services it renders. Its facilities have been built around the purchase credit method whereby the actual granting of the credit is done in the merchant's own place of business and by his own staff. This requires a high degree of skill in the credit, accounting and collection aspects of time sales transactions, particularly as they originate with the merchant for subsequent purchase and handling by the sales finance company.

Summarizing the foregoing, we respectfully emphasize that the very special aspects of funds employed, services rendered and the consequent need for highly trained and experienced personnel make the sales finance industry a category by itself, best equipped to service efficiently and soundly the field of instalment sales credit. Other credit granting institutions may compete in this field in varying degrees but only as an adjunct to their other predominant lines of business. The sales finance industry, being exclusively in the field of instalment sales credit, is the only one fully equipped to give it adequate service and attention.

Respectfully submitted,

J.H. Ranahan

J.H. Ranahan:rc

President.

SECTION I

INTRODUCTION

1. As the largest finance company in Canada, Canadian-owned and Canadian-managed, Industrial Acceptance Corporation Limited welcomes this opportunity to submit a brief to the Royal Commission on Banking and Finance. We look on this event as an opportunity to explain the nature and the scope of our business, and to give an individual viewpoint on a number of major public policy issues which affect consumer and business credit. It is also our intention to carefully document these issues, at times with data and information not previously released.

2. At the outset of this Brief we would like to state the reasons for our appearance before this Royal Commission. Having regard for the fact that two trade associations active in the consumer finance industry in Canada - the Federated Council of Sales Finance Companies (representing a large segment of the sales finance industry) and the Canadian Consumer Loan Association (representing small loan companies and licensed money lenders) - will submit detailed Briefs to this Royal Commission at a later date, we were faced with the choice of having our viewpoints represented entirely by a consensus emerging among the members of these organizations, and/or to proceed with our individual statement from our position as the largest and most diversified member of this "industry". Our decision to proceed individually should not be interpreted as meaning either a disassociation from the trade association Briefs (as indeed, we have contributed as fully to their preparation as if we were not also proceeding individually), or an attempt to divide the membership of the Canadian consumer credit industry. It should rather be viewed as an attempt to present an individual point of view which we felt would be useful to this Royal Commission.

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3. Perhaps it might be useful to start this Brief with a few words about the nature and philosophy of the financial aspects of our

business. Money is our raw material. To obtain it, we shop carefully among the sectors of the financial community which have a supply of loanable funds, always keeping in mind the liquidity requirements of our business and the fact that undue reliance upon any one source of funds can be expensive and disappointing. On the product side, we supply credit to small, medium and large business organizations of every description in Canada, and through them to hundreds of thousands of individual or business consumers of durable goods. Also, through our loan services and subsidiary company, individual borrowers (both business and private) are accommodated. We believe that the nature of the financial services we perform, and the prices we charge for them, are not generally well understood. It is our hope that this submission will portray our functions clearly and help this Royal Commission in the discharge of its duties.

4. Today, I.A.C. plays a sizeable role in providing credit to both individuals (as consumers and businessmen) and business organizations in Canada, as the following classification of our widely diversified financing activities shows:

(1) Credit supplied to Consumers:

(a) I.A.C. provides the funds and creates the time sales plans which enable consumer durable goods manufacturers, distributors and dealers to extend instalment credit facilities to their customers. I.A.C. provides credit data and appraisals, collection, recording and accounting services, merchandising support, and buys the contracts arising from instalment sales.

(b) Through manufacturers, distributors and dealers in consumer durable goods, I.A.C. provides purchase credit plans which enable individual Canadians to acquire labour-saving or leisure-creating goods and to pay for them out of future income. Items financed include: automobiles; domestic appliances; home entertainment equipment; outboard motors and boats; mobile homes and trailers; property improvements; prefabricated homes, cottages and garages; plumbing, heating

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(b) Through manufacturers, distributors and dealers in consumer durable goods, I.A.C. provides purchase credit plans which enable individual Canadians to acquire labour-saving or pleasure-giving goods and to pay for them out of future income. Items financed include: automobiles; household appliances; home entertainment equipment; outboard motors and boats; mobile homes and [illegible] property improvements [illegible] finished homes [illegible]

and air conditioning installations; and other durable goods for personal and home use.

(c) Instalment cash loans for individuals are provided by I.A.C.'s wholly-owned subsidiary, Niagara Finance Company Limited, which ranks first in size among Canadian-owned consumer loan companies.

(2) Credit supplied to business and industry:

(a) I.A.C. designs and administers instalment sales plans for manufacturers, distributors and dealers in capital equipment of all types, providing credit data and appraisals, collection, recording and accounting services, and buying the contracts arising from instalment sales.

(b) Through capital equipment manufacturers, distributors and dealers, I.A.C. makes purchase credit facilities available which enable Canadian business and industry to acquire the up-to-date plant and equipment essential to increased productivity and to pay for them out of future earnings. Capital equipment is financed in this way for business, industries and professions in almost every sector of the Canadian economy. Special plans have also been developed to facilitate the purchase of a wide range of modern farm equipment and machinery.

(c) Wholesale financing is extended principally to automobile dealers in order to facilitate the movement of vehicles from manufacturers to retail outlets, and to finance inventories. This service is also available to other durable goods industries.

(d) Portfolio purchases are made, from time to time, of receivables held by vendors and finance agencies covering the sale of consumer durable goods.

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(e) Leasing service: I.A.C. discounts equipment leases held by lessors; buys machinery and equipment to the specifications of an individual business, and then leases it to that business; or buys equipment already owned and leases it back.

(f) Capital Loan Services: I.A.C. provides medium-term funds for the purpose of sound business development of established companies, partnerships or individuals doing business in Canada.

(g) Short term cash loans for Canadian small business are provided through Niagara Finance Company.

(h) Through Industrial-Talcott Limited (an associated company), working capital is made available through factoring, rediscounting and commercial financing services.

(3) Other Activities:

(a) Merit Insurance Company: This I.A.C. subsidiary was formed in 1953 principally to provide a market for casualty insurance arising out of the activities of the parent company. Today, Merit Insurance ranks as one of the largest writers of automobile insurance in Canada and has diversified its activities into the writing of fleet, cargo, industrial, leasing, residential fire and theft and personal liability insurance.

(b) Niagara Finance Company: In addition to its small loan operation already described, this company has established an office in the United Kingdom.

Table I - 1 gives an indication of the progress made by I.A.C. since 1950.

5. Consumer Credit Terminology and Statistics.

Also at the beginning of this Brief, we would like to point out that the growth of many alternative sources of consumer credit in the postwar period has unfortunately not been accompanied by a stand-

Table I - 1

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED
SUMMARY OF PROGRESS
1950 - 1961

	Total Assets (Million $) (Year-End)	Total Shareholders' Equity (Million $) (Year-End)	Total Debt (Million $) (Year-End)	Gross Income (Million $)	Net Earnings (Million $)	Volume of Business (Million $)	Net Receivables (Million $) (Year-End)	No. of Employees	Number of Branches I.A.C.	N.F.C.	No. of Common Share-holders
1950	$145.1	$14.7	$113.1	$16.9	$2.8	$397.9	$139.2	949	62	53	1,651
1951	162.9	16.2	129.4	22.1	3.0	422.2	148.6	1,100 E	62	62	1,940
1952	263.2	27.0	202.2	30.3	5.0	574.7	249.0	1,485	71	68	2,851
1953	308.9	37.6	229.3	42.4	7.0	609.9	287.8	1,775 E	76	80	3,971
1954	268.3	41.0	187.5	39.5	6.8	464.1	245.6	1,890 E	80	87	4,120
1955	349.0	51.8	251.3	40.1	7.4	636.9	331.6	2,136	92	105	5,164
1956	448.3	65.1	323.2	51.7	8.6	795.6	429.3	2,301	100	116	5,287
1957	460.1	68.9	329.4	58.5	9.2	712.4	433.7	2,383	102	118	6,101
1958	474.8	74.8	333.2	60.5	10.7	716.9	436.9	2,481	113	138	6,334
1959	567.2	81.0	411.4	68.5	10.9	825.0	486.1	2,703	116	155	6,445
1960	626.9	88.3	454.4	80.8	12.1	847.3	540.0	3,020	129	181	6,673
1961	606.6	96.2	427.9	84.4	12.5	795.0	525.7	2,987	139	202	7,184

E - Estimated

ardization of terminology. Instalment credit, consumer debt, etc. are terms now used by laymen and experts alike without due recognition of the nature of the credit involved, the comprehensiveness of available statistics, or other objective criteria. For this reason we have standardized our discussion in this Brief in terms of a classification presented in Table I - 2. We do not expect that there will be unanimous agreement on these definitions among other discussants of consumer credit before this Royal Commission, but we do suggest that definitions and standard terminology in this area should be developed as part of the studies of this Royal Commission in the consumer credit field.

6. This objective has important bearing on the statistics now available on consumer credit in Canada. While the variety of consumer credit statistics has increased, there is usually a serious time lag between important competitive developments among sources of consumer credit and statistics available to describe them. As a result, policy advisers and policy makers may find themselves in the unusual position of focusing attention upon areas which they find well documented, but which are declining in absolute and/or relative importance as a source of consumer credit.

7. As used in this Brief, the term Consumer Credit covers the broadest possible term of reference, i.e. credit granted to individuals for non-business purposes in all forms, except mortgage debts and miscellaneous debts such as doctors' bills, etc.

8. Our primary classification of consumer credit is based on the time period over which repayments are made, even though such a division cannot always be made from available data. Sometimes the time distribution of repayments is not known when a particular debt is created. 1) However, when this repayment period and method are known, or presumed to be a dominant characteristic in a particular type of credit, we have a dividing point between instalment credit and single

1) E.g. A charge account debt created as a single payment credit which is subsequently "converted". A purchase of tires on a gasoline credit card is another example.

ardization of terminology. Instalment credit, consumer debt, etc. are terms now used by laymen and experts alike without due recognition of the nature of the credit involved, the comprehensiveness of available statistics, or other objective criteria. For this reason we have standardized our discussion in this Brief in terms of a classification presented in Table I - 2. We do not expect that there will be unanimous agreement on these definitions among other dissenters of consumer credit before this Royal Commission, but we do suggest that definitions and standard terminology in this area should be develop. As part of the studies of this Royal Commission on [illegible]

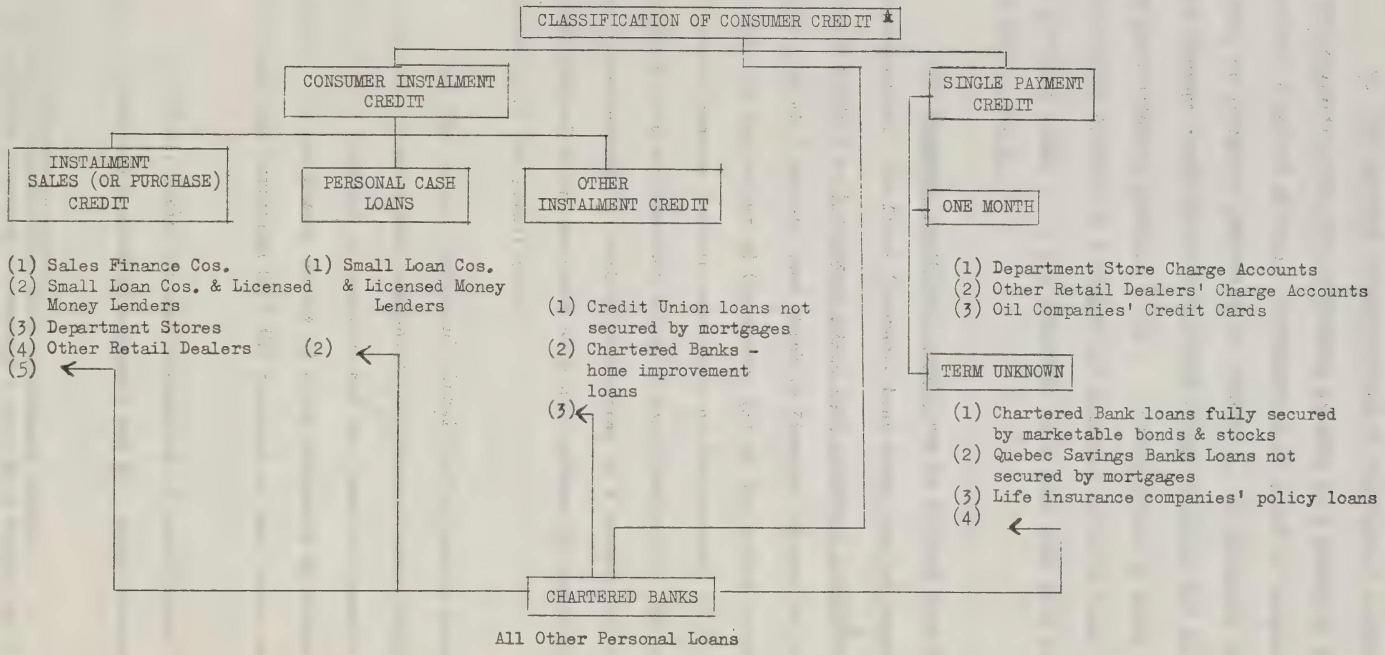
6. This objective has important bearing on the statistics now available on consumer credit in Canada. While the variety of consumer credit statistics has increased, there is usually a serious time lag between important competitive developments among sources of consumer credit and statistics available to describe them. As a result, policy advisers and policy makers may find themselves in the unusual position of focusing attention upon areas which they find well documented, but which are declining in absolute and/or relative importance as a source of consumer credit.

7. As used in this Brief, the term Consumer Credit covers the broadest possible term of reference, i.e. credit granted to individuals for non-business purposes in all forms, except mortgage debts and miscellaneous debts such as doctors' bills, etc.

8. Our primary classification of consumer credit is based on the time period over which repayments are made, even though such a division cannot always be made from available data. Sometimes the time distribution of repayments is not known when a particular debt is created. 1) However, when this repayment period and method are known, or presumed to be a dominant characteristic in a particular type of credit, we have a dividing point between Instalment credit and Non-Instalment credit.

1) E.g. A charge account debt created as a single payment credit which is subsequently "converted". A [illegible] of [illegible] on a revolving account is another example.

Table I - 2



★ All debts owed by individuals for non-business purposes <u>excluding</u> mortgage debts and miscellaneous debts (doctors' bills, etc.).

payment credit. This is the major classification upon which Table I - 2 is based.

9. The general classification of "instalment credit" rests upon the characteristic that repayment is made in a number of payments spaced over a period of time. Combinations of equal or unequal payments, and equal or irregular intervals are possible. In contrast, there is "single payment credit", which includes charge accounts and oil companies' credit card balances expected to be liquidated within 30 days, [1] and single payment debts with a longer (or unknown) maturity (some chartered banks personal loans which are repayable in a lump sum; life insurance policy loans, etc.).

10. Consumer instalment credit can be divided into three major categories. The first (probably best known type of consumer instalment credit) is instalment sales (and purchase) credit[2] arising from the sale of a durable good which is financed through one of the following: (1) the seller of the goods, (2) by the seller through a sales finance company (either subsidiary or independent) or (3) a small loan company (not an important category quantitatively). The distinguishing characteristic in such a transaction is a conditional sale agreement created by the merchant with his customer in connection with the financing of the retail sale.

11. The second instalment classification covers personal cash loans extended by small loan companies and licensed money lenders. No conditional sale contract is involved and the loans are usually repaid in instalments. As our sample survey of 2,422 customers of Niagara Finance Company shows (see paragraph 124) the purposes of such loans are manifold.

12. Next, there are some categories of credit where the purchase of goods and instalment payments may be major characteristics

1) Though partly "convertible" into instalment credit.
2) The transaction financed represents a sale by a vendor and a purchase by the consumer. We will refer to it as "instalment sales credit".

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2) The transaction financed represents a sale by a vendor and a purchase by the consumer. We will refer to it as "instalment sales credit".

even though present statistics do not properly reflect this fact. These include loans by credit unions not secured by mortgages. The annual report on credit unions of the Canada Department of Agriculture does not disclose the nature of these credit union loans, but their function is largely one of instalment credit. Statistics in the U.S. recognize this. [1]

13. The final classification problem on the instalment credit side arises in the so-called "all other chartered banks personal loans". Repayments under the various plans used work out to instalment loans as long as they are not in a single lump sum. Even though statistics collected by the Bank of Canada are partly providing an answer on the instalment nature of these loans since the beginning of 1961, our knowledge of the repayment methods and detailed functions of the whole personal loan category of the chartered banks is still highly inadequate, particularly in light of their rising absolute and relative importance. As a result, we are showing them as instalment credit in the belief that this is their main characteristic; to the extent that some of these loans are repaid in lump sums, they belong on the bottom right side of the Table.

14. One month single payment credit includes charge accounts and credit cards, though some debts in this category are "convertible" into instalment credit. The final classification covers single payment debt with an unknown maturity, which includes mainly fully secured (by marketable bonds and stocks) chartered bank loans, life insurance companies' policy loans and Quebec Savings Banks Loans (not secured by mortgages). Some of the "all other" personal loans of the chartered banks should also be included here.

15. Purchase vs. Loan Credit

A second useful concept for classifying consumer credit is to ask whether a particular transaction arises from the purchase of a

[1] Board of Governors of the Federal Reserve System, Consumer Instalment Credit, Volume I, Part 1, Chart 1, Page 23.

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15. <u>Purchase vs. Loan Credit</u>

A second useful concept for classifying consumer credit is to ask whether a particular transaction arises from the presence of a

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[1] Board of Governors of the Federal Reserve System: <u>Consumer Instalment Credit</u>, Volume I, Part 1, Chart 1, Page 2[illegible].

good (purchase credit) or a transfer of cash (loan credit). In terms of the classification shown in Table I - 2, this additional criterion gives the following results:

	INSTALMENT CREDIT	SINGLE PAYMENT CREDIT
PURCHASE CREDIT	Sales Finance Companies Department Stores Other Retail Dealers	Department Stores Other Retail Dealers Oil Company Credit Cards
LOAN CREDIT	Small Loan Companies Credit Unions Chartered Banks - Home Improvement Loans - All other Personal Loans	Life Insurance Companies' Policy Loans Quebec Savings Banks Loans Not Secured by Mortgages Chartered Banks Fully Secured Loans

16. Statistical Review

We now turn to the consumer credit statistics available in Canada, and a general summary of the major trends in the last decade, with particular emphasis on the period since the end of 1956. The classifications suggested in Table I - 2 are used in Appendix I, Tables I - 3 and I - 4 to show the amounts of consumer credit outstanding in each category at year-end in the period 1951-1960, [1] in absolute (Table I - 3) and relative (Table I - 4) terms.

17. Instalment Sales Credit

Col-(1) Instalment Finance Companies. [2] The figures shown represent the balances outstanding on the financing of retail purchases of consumers' goods under conditional sale agreements. The total amount of paper outstanding increased by $570 million between the end of 1951 and 1956. The use of 1951 as a point of departure for our comparisons introduces a possible bias, since controls over down-payments and maximum repay-

1) At the time this summary was written, data for the end of 1961 were not available for all types of consumer credit.

2) In this brief the companies in the D.B.S. classification of "instalment finance companies" will be referred to as "sales finance companies".

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	[illegible]	[illegible]
PURCHASE CREDIT	Sales Finance Companies	Department Stores
	Department Stores	Other Retail Dealers
	Other Retail Dealers	Oil Company Credit Card
LOAN CREDIT	Small Loan Companies	Life Insurance Companies Policy Loans
	Credit Unions	Quebec Savings Banks
	Chartered Banks	
	- Home Improvement Loans	Mortgages
	- All other Personal Loans	Chartered Banks Fully Secured Loans

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ment periods were in effect during that entire year. However, this is a minor point since we intend to emphasize changes that have taken place more recently, particularly since the end of the boom of the Middle Fifties. Since the end of 1956, the increase in outstanding paper has been small. Between the end of 1956 and 1957, there was a $24 million increase, followed by a $12 million decline to the end of 1958. Then came two years of moderate increases bringing the outstanding balances at the end of 1960 to $828 million, or $72 million above the figure at the end of 1956. The share of all consumer credit (Table I - 4, Column 18) accounted for by the sales finance companies rose from 13.1% at the end of 1951 (when controls were in existence) to 23.4% at the end of 1956. By the end of 1957 the share amounted to 23.7% (a high for the period under review), and it has declined steadily since then, reaching 19.0% at the end of 1960. At the end of 1961, outstanding balances were $68 million lower than at the end of 1960.

col-(2) <u>Small Loan Companies</u>. The outstanding balances of instalment sales credit provided by small loan companies are a minor part of total consumer credit (accounting for 1% of the total for the first time in 1960); the largest part of the small loan companies' credit is classified as personal cash instalment loans (column 6). Instalment sales credit balances were first reported at $3 million at the end of 1953 and increased to $45 million at the end of 1960. Outstanding balances totalled $35 million at the end of 1961, or $10 million less than a year earlier.

col-(3) <u>Department Stores</u>. Because of several changes in recent years in the reporting basis for department store credit statistics, we made some arbitrary estimates to arrive at an approximation of instalment sales credit in this category for the last two years (1951 has also been estimated). Because of "all purpose" credit plans now in use, it is no longer possible to separate instalment credit and charge accounts. We estimate that instalment sales

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credit balances outstanding on the books of department stores amounted to $44 million at the end of 1951. By the end of 1956 this had increased by $117 million to a total of $161 million. The figure was last reported separately at $187 million at the end of 1958, and assuming that it has accounted for the same percentage of all department store credit since then, outstanding balances would have been $241 million at the end of 1960 and $267 million at the end of 1961. The ratio of department stores' instalment sales credit to total consumer credit has risen steadily; it was 3.1% in 1951, 5.0% in 1956, and 5.5% in 1960 (year-end figures of outstanding balances).

col-(4) Other Retail Dealers

Instalment sales credit balances on the books of other retail dealers increased from $96 million at the end of 1951 to $248 million at the end of 1956, and $271 million at the end of 1960. The ratio of other retail dealers' instalment sales credit to total consumer credit has fluctuated within narrow limits. It amounted to 6.8% at the end of 1951; reached a high of 8.6% at the end of 1952 and 1954, but declined to a share of 6.2% at the end of 1960. This category includes paper held by automobile dealers, furniture and appliance stores, etc.

col-(5) Total Instalment Sales Credit

This is a sub-total in the instalment credit classification suggested in Table I - 2. It represents a total of the first four columns in Table I - 3, and subject to the limitations outlined in the department store data, it represents a homogeneous classification of instalment sales credit. Total paper outstanding in this classification at the end of 1951 amounted to $326 million. By the end of 1956, the outstanding amount was $1,178 million, or $852 million more than at the end of 1951. Following this there was a rise in the total to $1,385 million outstanding at the end of 1960; this was $207 million more than

the balance outstanding at the end of 1956. The share of total consumer credit accounted for by instalment sales credit increased from 23.0% at the end of 1951 to 32.7% at the end of 1952. Subsequently the ratio rose to a high of 37.7% at the end of 1957 and has declined since then to a ratio of 31.7% at the end of 1960.

18. col-(6) Personal Cash Instalment Loans

These loans constitute most of the business of the small loan companies and licensed money lenders. The major characteristics of loans in this classification are that they are not made on the basis of a conditional sale agreement, [1] and are usually repaid in instalments; for this reason we have included them in the instalment classification of our breakdown of total consumer credit. Outstanding balances increased from $114 million at the end of 1951 to $343 million at the end of 1956. The sharp rise in outstandings of this type of credit continued after 1956. Balances at the end of 1960 were just above $500 million, and $548 million at the end of 1961. The share of all consumer credit accounted for by personal cash instalment loans was 8.1% at the end of 1951; by the end of 1956 this ratio had increased to 10.6% and by the end of 1960 it had risen further to a share of 11.6% of the total.

19. col-(7) Credit Union Loans Not Secured by Mortgages

As we have already noted, the Annual Report on Credit Unions does not supply any details about the nature of these loans. Their method of repayment and their function is believed to be essentially that of instalment credit. Statistics are available on a year-end basis only; this is an exception in the consumer credit field where all other figures are available either on a monthly or quarterly basis. In view of the rising importance of credit union instalment credit, we would suggest that the Government's

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1) The usual legal instrument is a Chattel Mortgage in all Provinces except Quebec, where a sale with right of redemption is used.

the [illegible]

consumer are it accounted for by instalment sales credit [illegible] [illegible] was declined [illegible] to a ratio of [illegible] at the end of 1950.

18. [illegible] (b) Personal Cash [illegible]

These loans constitute most of the [illegible] of the [illegible] commercial [illegible] and [illegible] small loan companies. The major characteristics of loans of this class [illegible] that they are not made on the basis of a [illegible] and are normally repaid in instalments. For this reason we have included them in the [illegible] classification of consumer [illegible] total consumer credit. Outstanding [illegible] million at the end of 1939 to [illegible] at the end of 1950. [illegible] of this type of credit continued after 1950, [illegible] above $200 million, and $240 million at the end of 1951. The share of all consumer credit accounted for by personal cash [illegible] from [illegible] at the end of 1939; by the end of 1950 this ratio had increased to 16 [illegible] and by the end of 1951 it had risen further to a level of [illegible] of the total.

19. [illegible] (c) [illegible]

[illegible]

[illegible]

statistical attitude towards credit unions does not give proper reflection of their growing importance. Outstanding balances totalled $76 million at the end of 1951; by the end of 1956, they had increased by $150 million to a total of $226 million outstanding, and from then until the end of 1960 there was another increase of $199 million to a total of $425 million outstanding. In relative terms these credit union loans accounted for 5.4% of all consumer credit in 1951, 7.0% at the end of 6, and 9.7% at the end of 1960.

20. The absolute and relative gains in total consumer credit shown by credit unions have led to a situation where these financial institutions today occupy a significant position among the suppliers of such credit in the Canadian economy. In broad historical terms, credit unions were originally intended to be somewhat informal mutual-aid organizations, manned by volunteer workers who were not professionally trained in credit-granting procedures. To what extent these characteristics still apply today, and to what degree some of the larger units have acquired many of the characteristics of big commercial operations would appear to be a major field of inquiry for this Royal Commission, particularly in view of the present tax-exempt status of these organizations. Furthermore, we believe that federal supervision by the Department of Agriculture is indicative of the early and small parochial nature of this movement which is in sharp contrast to its present size.

21. It is pertinent to point out also that finance companies and other financial institutions are subjected to extensive and expensive ground rules in the issuance of their securities to investors who entrust money to their care. Thus, if this Royal Commission should find that credit unions have indeed assumed essentially commercial characteristics, then it could also be useful to determine whether the protection and the liquidity afforded to credit union depositors is adequate.

22. col-(8) Chartered Banks Home Improvement Loans

These are loans made under part IV of the National Housing Act of 1954, and balances outstanding on the books of the chartered banks have been reported since 1955. Quantitatively these loans play a relatively minor part in the overall consumer credit picture; outstanding balances were first reported at $24 million dollars at the end of 1955, and have since increased to a total of $56 million outstanding at the end of 1960, and $66 million a year later. Their share of total consumer credit outstanding amounted to 1.3% at the end of 1960.

23. col-(9) Chartered Banks' Instalment Credit Loans

This is presently one of the problem areas in any statistical classification of consumer credit in Canada. The difficulties arise because the "All Other Personal Loans" classification, as shown in the Bank of Canada Statistical Summary, gives breakdowns which are not suitable for determining whether the loans are single payment credit, instalment sales credit, or cash personal loans which are repayable by instalments. The present classification in the "all other" group includes (1) loans secured by household property, for which details are shown when the security is motor vehicles (since the beginning of 1961) and (2) other personal loans for which a breakdown of loans repayable by equal instalments of principal and interest is available since 1961. On the basis of the present data, we are therefore forced to draw these loans together under a single heading, even though we are aware that some part of this total might represent single payment personal loans. Total balances outstanding of the chartered banks "all other" personal loans amounted to $204 million at the end of 1951. By the end of 1956, they had more than doubled to $435 million outstanding; at the end of 1960 they were again almost twice as large with an outstanding total of $857 million, and

[illegible]

Loans [illegible] under part IV of the [illegible] dealing with [illegible] 1965, and balances outstanding on the books of the [illegible] banks have been reported since 1965. Quantitatively they [illegible] play a relatively minor part in the overall consumer credit picture; outstanding balances were first reported at $14 million [illegible] at the end of 1965, and have [illegible] increased to a total of $[illegible] million outstanding at the end of [illegible], and $[illegible] million a year later. Their share of total consumer credit outstanding amounted to 1.3% at the end of 1966.

[illegible]

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[illegible] personal loans [illegible] [illegible] at the end of 1961 [illegible] at the end of 1965, they [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

at the end of 1961 they amounted to $1,030 million. The relative importance of chartered banks instalment credit in total consumer credit has also increased. At the end of 1951 chartered bank instalment credit amounted to 14.4% of all consumer credit; between that time and the end of 1958 this ratio fluctuated within a rather narrow range, but by the end of 1960 it had increased to 19.6%.

24. col-(10) Total Instalment Credit
This figure represents a total for instalment sales credit (Columns 1 - 4), personal cash instalment loans (Column 6), other instalment credit (Columns 7 and 8), and chartered banks instalment credit (Column 9). Although there are limitations to some of the data included in this total, we suggest that such a classification is useful and that efforts should be made to remove the statistical limitations now existing in this total figure.

25. Total instalment credit outstanding increased from $1,100 million at the end of 1952 to $2,220 million at the end of 1956, and by another $1 billion to $3,227 million at the end of 1960. This rapid rise is also reflected in the percentage of all consumer credit accounted for by instalment credit; the ratio was 58.3% in 1952 (having increased sharply from 50.9% in 1951), 68.8% in 1956 and 74% in 1960. The main types of consumer credit responsible for this sharp absolute and relative rise are readily apparent from the details shown in Tables I - 3 and I - 4.

26. cols-(11-17) Single Payment Credit
We have rounded out this discussion of consumer credit by showing details for the major categories of single payment credit for which data are available. Column 11 combines department store charge accounts and other deferred payment plans; it is subject to the limitations discussed and the figures in Column 3. Column 12

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represents charge accounts of other retail dealers, which have been increasing slowly in absolute amounts, and show a steadily declining percentage in terms of total consumer credit. Column 13 shows balances outstanding on oil companies' credit cards (figures are available quarterly since the end of 1955); they are included here in order to arrive at as comprehensive a picture on consumer credit as is possible on the basis of present statistics. Column 14 shows fully secured loans of chartered banks (by marketable bonds and stocks) under the heading of single payment credit, as it is believed that the essential characteristic is a single repayment. In absolute terms these loans have moved within a narrow range for the entire period under review; the outstanding amount was $226 million at the end of 1951, $313 million at the end of 1956 and $336 million at the end of 1961. In relative terms their importance has decreased from 16.0% at the end of 1951 to 9.7% at the end of 1956, and 6.6% at the end of 1960. Column 15 shows life insurance companies' policy loans which have increased gradually in absolute terms. At the end of 1951 the amount outstanding totalled $199 million; by the end of 1956 this had increased by $71 million to a total of $270 million outstanding and from then until the end of 1961 there was a further increase of $90 million to a total of $360 million outstanding. In relative terms these loans declined from 14.1% of all consumer credit in 1951, to 8.4% at the end of 1956 and 7.9% at the end of 1960. Column 16 rounds out our picture of single payment credit with "Quebec Savings Banks Loans Not Secured By Mortgages" which play a minor role in total consumer credit as their total percentage has not exceeded 0.4% in the period under review.

27. Total single payment credit as defined in this classification has increased from $696 million outstanding at the end of 1951 to slightly more than $1 billion at the end of 1956 and $1,136 million at the end of 1960. Because of the much more rapid increase in instalment credit, the share of single payment credit has declined, falling from just under one-half of the total outstanding in 1951 (when controls over instalment credit were in

represents charge accounts of other retail dealers, which have been increasing slowly in absolute amounts, and show a steadily declining percentage in terms of total consumer credit. Column 13 shows balances outstanding on oil companies' credit cards (figures are available quarterly since the end of 1955); they are included here in order to arrive at as comprehensive a picture on consumer credit as is possible on the basis of present statistics. Column 14 shows fully secured loans of chartered banks (by marketable bonds and stocks) under the heading of single payment credit, as it is believed that the essential characteristic is a single repayment. In absolute terms these loans have moved within a narrow range for the entire period under review: the outstanding amount was $226 million at the end of 1951, $313 million at the end of 1956 and [illegible] ance has decreased from 16.0% at the end of 1951 to 9.7% at the end of 1956, and 6.6% at the end of 1960. Column 15 shows life insurance companies' policy loans which have increased gradually in absolute terms. At the end of 1951 the amount outstanding totalled $199 million; by the end of 1956 this had increased by $71 million to a total of $270 million outstanding and from then until the end of 1961 there was a further increase of $90 million to a total of $360 [illegible] 14.1% of all consumer credit in 1951, to 8.4% at the end of 1956 and 7.0% at the end of 1960. Column 16 rounds out our picture of single payment credit with "Quebec Savings Banks Loans Not Secured By Mortgages" which play a minor role in total consumer credit as their total percentage has not exceeded 0.4% in the period under review.

27. Total single payment credit as defined in this classification has increased from $606 million outstanding at the end of 1951 to slightly more than $1 billion at the end of 1956 and $1,156 million at the end of 1960. Because of the much more rapid increase in instalment credit, the share of single payment credit has declined, falling from just under one-half of the total outstanding in 1951 (when contracts over instalment credit were in

effect) to 31.3% of the total in 1956 and only 26% at the end of 1960.

28. col-(18) Total Consumer Credit

Total consumer credit as shown here has increased from $1.4 billion at the end of 1951 to $3.2 billion at the end of 1956 and $4.4 billion at the end of 1960. We have used this figure merely as a standard against which the relative importance of individual components is compared. A discuss n of the possible burden this total consumer credit implies for the Canadian consumer will be found in Section VI below.

CONSUMER INSTALMENT SALES CREDIT AND FINANCE CHARGES

29. On the basis of the consumer credit classification shown in Table I - 2, we turn to an analysis of instalment sales credit provided by Industrial Acceptance Corporation as a consumer sales finance company.[1] The essential "retail" function of a sales finance company is to supply purchase credit which is extended by a manufacturer, distributor or merchant at the time an oint of sale of a durable good.[2] This purchase credit involves a mechanism whereby the consumer arranges his credit directly with a merchant at the time a durable good is purchased, and gets immediate delivery of the item he has purchased (not cash). It creates a one-stop method of shopping for durable goods and provides an important link in the chain between mass production and mass consumption. It should also be recognized that sales finance companies are an outgrowth of the selling of goods rather than of money-lending and that their retail financing has been used by persons in all income classes, and not primarily by necessitous borrowers or low income groups.[3] Furthermore, it is the only industry which specializes in providing the small businessman with credit services which enable him to compete with large, well-financed merchants and department stores whose volume of business permits them to handle their own instalment credit services.

30. Statistical Summary

Tables II - 1 and II - 2 summarize the importance of consumer instalment sales credit supplied by sales finance companies in Canada in the last decade; the amount of the outstanding balances accounted for by IAC is also shown.

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1) I.A.C.'s activities in supplying business, commercial and industrial credit are discussed in Section IV.
2) This distinguishes it from "loan credit" whereby an individual goes to a bank or loan company to obtain cash for a specific purpose.
3) Consumer Instalment Credit, op.cit., Volume I, Part 1, Page 38.

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Consumer Instalment Credit, op.cit., Volume I, Part I, Page 73.

Table II - 1

RETAIL INSTALMENT SALES CREDIT BALANCES OF ALL SALES FINANCE COMPANIES AND INDUSTRIAL ACCEPTANCE CORPORATION LIMITED;
TOTAL INSTALMENT SALES CREDIT, TOTAL INSTALMENT CREDIT AND TOTAL CONSUMER CREDIT

MILLIONS OF DOLLARS OUTSTANDING

END OF YEARS 1951-1960 *

End of	(1) Sales Finance Companies (Retail Paper)	(2) Total Instalment Sales Credit	(3) Total Instalment Credit	(4) Total Consumer Credit	Consumer Sales Instalment Paper - IAC
1951	186	326	720	1,416	61
1952	373	616	1,100	1,886	137
1953	516	803	1,413	2,255	172
1954	492	820	1,531	2,394	146
1955	599	982	1,894	2,885	176
1956	756	1,178	2,220	3,229	229
1957	780	1,239	2,312	3,291	224
1958	768	1,240	2,553	3,600	212
1959	806	1,327	2,949	4,039	227
1960	828	1,385	3,227	4,363	230
1961	760	n/a	n/a	n/a	215
Increase:					
1951-56	570	852	1,500	1,813	168
1956-60	72	207	1,007	1,134	1
1951-60	642	1,059	2,507	2,947	169

(1) See Appendix I, Table I-3, Column 1.
(2) See Appendix I, Table I-3, Column 5.
(3) See Appendix I, Table I-3, Column 10.
(4) See Appendix I, Table I-3, Column 18.

* 1961 where available.

Table II - 2

OUTSTANDING RETAIL BALANCES OF SALES FINANCE COMPANIES AS A PERCENTAGE OF

End of	Total Sales Instalment Credit	Total Instalment Credit	Total Consumer Credit	IAC Consumer Retail Instalment Credit O/S as a % of All Sales Finance Companies
1951	57.1%	25.8%	13.1%	32.8%
1952	60.6	33.9	19.8	36.7
1953	64.3	36.5	22.9	33.3
1954	60.0	32.1	20.6	29.7
1955	61.0	31.6	20.8	29.4
1956	64.2	34.1	23.4	30.3
1957	63.0	33.7	23.7	28.7
1958	61.9	30.1	21.3	27.6
1959	60.7	27.3	20.0	28.2
1960	59.8	25.7	19.0	27.8
1961				28.3

31. Between the end of 1951 and 1960, the retail paper outstanding held by sales finance companies increased by $642 million, with $570 million of this increase taking place up to end of 1956, and only $72 million from then until the end of 1960. Corresponding absolute increases in (1) total instalment sales credit, (2) total instalment credit and (3) total consumer credit are summarized in Table II - 1. While total instalment credit outstanding increased by more than $1 billion between the end of 1956 and 1960, sales finance company paper contributed only $72 million to this overall change. Total instalment sales credit contributed slightly more than $200 million (including the $72 million of sales finance companies), with the remaining 4/5 of the increase coming mainly from personal cash instalment loans of the small loan companies ($161 million), credit unions ($199 million) and chartered banks' instalment credit ($422 million).

32. Table II - 2 shows the ratio of sales finance company retail paper outstanding to the larger totals of instalment credit, as well as to total consumer credit. Since 1951 the share of total instalment sales credit accounted for by the paper of the sales finance companies has been relatively steady and has fluctuated between a low ratio of 57.1% at the end of 1951, and a high of 64.3% at the end of 1953. At the end of 1960, the corresponding ratio was 59.8%. Competitive developments have produced a far greater fluctuation in "market shares" once all sources of instalment credit are taken into account. Thus, outstanding sales finance company paper accounted for more than 30% of total instalment credit at the end of each of the years between 1952 and 1958; by the end of 1959, this ratio was reduced to 27.3%, and at the end of 1960, it declined further to 25.7%. All these figures emphasize that competition in the consumer instalment credit field is rapidly changing the relative importance of various sources of supply. Thus, credit unions, chartered banks and small loan companies are showing appreciable gains in their respective market shares.

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33. The amount of consumer retail instalment paper outstanding on the books of I.A.C. also emphasizes this trend. Starting with $61 million in outstandings at the end of 1951, the total outstanding increased to $229 million at the end of 1956. Since that time the outstanding year-end total has been virtually static, ranging between $212 and $230 million. Our share of the total sales finance companies' paper in this category averaged about 1/3 of the total in Canada in the early Fifties, and has since declined to about 28%.

34. <u>Nature of Instalment Sales Credit</u>

One of [illegible] important issues surrounding the operations of the sales finance companies arises in whether or not they have the major characteristics and perform the functions of banks. Here in Canada one opinion can be summarized in the words of James Coyne, the former Governor of the Bank of Canada:

> "The existence of what amounts to a rival banking system, competing for deposits and short-term funds in order to make short-term loans to finance consumption ....without supervision or regulation, and out of step with the trend of credit policy in the regular banking system, can be a definite handicap to monetary policy during a boom, and will also have de-stabilizing effects during any recession of activity that may ensue.
>
> "Finance companies carry on an operation which is in all essentials banking, but are not restrained by changes in monetary conditions." 1)

35. The use of the words "rival banking system", or "near-banking system" has continued from time to time since 1956 and only last year the President of one of the chartered banks suggested that the efficiency of monetary policy could be improved by including as part of the money supply definition the deposits said to be taken by various credit-granting institutions, including finance companies. At present we would like to examine what element of truth there is in the contention that a sales finance company such as I.A.C. is essentially a bank, a near-bank, or a rival to the existing banking system.

---

1) Bank of Canada, <u>Annual Report for the Year 1956</u>, pages 26 and 27.

36. To begin, we would like to dispel the illusion now existing in the minds of some people that this company takes deposits in the sense that the word "bank deposit" is usually defined. One generally accepted definition describes a bank deposit as follows: "A deposit is a debt of the bank to the depositor, who has the right to draw a cheque or cheques, up to the amount of his balance, ordering the bank to pay himself or others specified sums, and the bank is under obligation to honour and pay such duly drawn cheques on presentation." [1] In addition to this, there are savings or notice deposits which may specify a withdrawal notice, and other variations to bank deposits, which are usually accompanied by another important characteristic: a passbook evidencing the existence of such a deposit.

37. The argument that the sales finance companies have in recent years competed for money that might otherwise have been left as bank deposit funds is entirely another matter. A financial analysis of our company shows that our short-term notes have certainly played an increasingly important role as a source of borrowed funds during the last decade. Our entry into the Canadian short-term money market has been viewed by experts as a desirable development in the broadening and better functioning of this market. It is a market where the federal treasury, the sales finance companies, other large business borrowers, some chartered banks, and more recently, some provincial governments and municipalities are actively competing for short term investment funds available in Canada. The actions of all such borrowers, other than the banks, do not fit the description of "taking deposits". While it can be implied that this market is deposit-competing, this is not a valid criticism of its existence or the presence of one or other of the short term borrowers in the money market. It must also be noted that the short-term borrowings by finance companies do not necessarily remove such funds from the banking system.

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1) Ray B. Westerfield, Money, Credit & Banking, (Revised edition), 1947, page 175.

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1) Ray B. Westerfield, Money, Credit & Banking, (Revised edition) 1947, page 175.

38. A second point of distinction between finance companies (in general) and the chartered banks is simply this: while the two types of financial institutions compete today in the Canadian consumer credit "industry", their powers differ radically in that the chartered banking system has the ability to create a multiple credit expansion on the basis of an increase of the reserves in the system, and has the recognized function to create a substantial part of our money supply. A sales finance company, on the other hand, collects the funds available from other people and uses them to finance instalment sales with no multiplier effect. We are aware that the Bank of Canada can regulate chartered bank credit, and can carefully control the base on which credit expansion can take place in the chartered banking system. But this does not alter the fact that multiple credit expansion can be based only on a partial reserve system.

39. How does the operation of a finance company compare in this respect? It is plain that we are purely a financial intermediary which draws on available funds from various sectors of the financial community, and, in the case of our consumer financing activities, makes credit available (through merchants) to consumers who want to obtain the use of durable goods ahead of their willingness to pay for them in cash. It has been suggested that instalment credit accelerates the velocity of credit in the financial system. This suggestion rests largely on a theory which assumes that the short-term funds we use would otherwise remain essentially idle. In a capital-hungry country such as ours, this is hard to believe. There is also a second assumption that if sales finance credit did not exist, such idle funds would not be used for the financing of consumer durable goods, the demand for which shows sizeable cyclical fluctuations. The diversity of sources of credit now available to the consumer once again dispels this idea.

40. Instalment Sales Finance Companies Services

The nature of the service supplied and the price charged by a finance company is frequently misunderstood and misinterpreted. We

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40. Instalment sales finance companies' Services

The nature of the service supplied and the price charged by a finance company is frequently misunderstood and misinterpreted. We

would like to look at this specifically from the viewpoint of instalment sales financing. A convenient starting point for this approach is to reiterate that consumer instalment sales credit arises out of the selling of goods, rather than the lending of money. The process immediately puts the use of durable goods into the hands of the purchaser; often well ahead of the time that he can pay for the item in cash. In other cases, it enables him to keep savings intact, which he may well have available.

41. In terms of the price system, the instalment credit process creates one more dimension; in addition to the cash price for a durable good, a time price is created for the same good which will depend upon (1) the amount of the cash down payment of the prospective buyer, (2) the price set on the surrender value of a trade-in good, if any, and (3) the length of the period over which the instalment financing will be done. While we are aware that competition among sellers of durable goods creates other price dimensions (and that such competition has an impact on the setting of the finance charge), the process of instalment financing confronts the consumer with only the additional variable of a time sale price for a given consumer durable good.

42. The sales finance company has no contact with the consumer and, therefore, cannot influence his choice between these two alternatives; it does not coerce him, nor does it enter into an individual transaction until the final terms have been hammered out between purchaser and dealer. Thus , its functions are pin-pointed: it must set the price at which it will purchase retail paper from the dealer having regard for (1) the cost of the funds it employs, (2) the expenses it incurs in the servicing of an individual instalment finance contract and the losses it must sometimes take, (3) the competition among sales finance companies to finance the retail paper of a particular dealer, and (4) the necessity for earning a satisfactory profit on the transaction.

43. From the viewpoint of the seller of the goods, the choice is as follows. Knowing the terms upon which financing from sales finance companies, chartered banks, etc. is available to him, he creates the

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[illegible]

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time payment sale, and then decides to do one of three things:

(1) He may carry the receivables on his own capital resources (the importance of department store and other retail dealer instalment sales credit is seen in Appendix I, Tables I - 3 and I - 4).

(2) He may use the receivable as collateral and carry it with funds borrowed from a bank.

(3) He may sell the contract to a sales finance company.

Actually there are some dealers who may operate in all three ways or at least in two out of the three ways. This is not uncommon.

44. At the risk of some repetition we would like to summarize the process of the instalment sales credit creation as follows: The prospective instalment purchaser enters a dealer's place of business, picks out the automobile, refrigerator, stereo equipment, furniture or whatever he wants to buy on the instalment plan, and arrives at an agreed time price with the dealer. After making the down payment, he signs a contract of conditional sale and, if the dealer is satisfied as to the credit of the buyer, delivery of the merchandise can be made immediately. No finance company has entered into the deal, directly or indirectly up to this time, and in fact, it may never do so. The dealer might decide to carry that contract himself or through his bank. However, the finance industry does offer the very important service of credit investigation which is widely used by dealers for the purpose of checking the status of the prospective buyer. This is particularly important, of course, where the buyer is not well known to the dealer. Let us assume that the dealer sells the contract to a sales finance company. Having first completed the contract by adding his assignment, the dealer either mails or delivers it to the nearest office of the finance company, where it is carefully checked. The sales finance company first must be satisfied as to the credit of the purchaser, that a satisfactory down payment has been made and that terms of repayment will keep the balance owing within the probably realizable value of the good throughout the life of the contract. If these requirements are reasonably met, the sales finance

company issues its cheque for the proceeds and the dealer thus receives cash for the transaction less the value of any trade-in which may be involved. At the same time, the finance company notifies the purchaser that it has bought the contract, sends him a transcript of the account and explains that payments are to be made at its office, either by mail or in person.

45. The purchase credit transaction involves the supply of a credit service package; the price charged by the seller for this service is called a finance charge and represents the difference between the cash sale price and the time sale price. If a sales finance company is brought into the picture through the purchase of the instalment paper created by the dealer, the finance charge becomes a sales price for credit services of the sales finance company. Thus, it should be viewed as a service charge which must cover a number of variable expenses and overhead, and provide a return on money invested.

46. Cost Components of the Finance Charge

From the viewpoint of the sales finance company (or any individual merchant carrying his own paper), the following cost components arise in any individual time sale transaction:

(1) The major internal costs for opening, handling and closing a particular account. In addition, most sales finance companies today also provide life insurance coverage to most customers to cover outstanding balances. In our case, there is no separate charge for this service, and the net cost incurred by I.A.C. for this coverage has grown from moderate sums since 1945 (when I.A.C. pioneered this service, as we were probably the first sales finance company on this continent to inaugurate the purchaser life insurance protection plan) to $952,000 in the policy year ended September 30, 1961. A detailed picture of purchaser life insurance provided by our company can be obtained from Table II - 3. Incidentally, I.A.C. places this life insurance coverage with an independent company in which it has no interest. Another cost involves credit investigation

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Table II - 3

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

PURCHASER LIFE INSURANCE DATA
FROM OCTOBER 1, 1945 to SEPTEMBER 30, 1961

	Premiums Paid By IAC	Dividends Received By IAC From Insurance Co.	Net Cost to IAC	Claims Paid By Insurance Company	X Estimated No. of Contr. Insured	No. of Claims	Claims Frequency (1 in -)
Oct. 1/45 - Sept. 30/46	$ 9,908	$ 2,972	$ 6,936	$ 3,340	$ -	-	
Oct. 1/46 - Sept. 30/47	38,746	15,498	23,248	12,113	-	55	
Oct. 1/47 - Sept. 30/48	74,431	27,989	46,442	35,683	-	151	
Oct. 1/48 - Sept. 30/49	125,313	27,578	97,735	66,583	108,891	275	396
Oct. 1/49 - Sept. 30/50	250,643	91,985	158,658	121,950	162,716	410	397
Oct. 1/50 - Sept. 30/51	295,565	89,260	206.305	182,468	189,192	494	383
Oct. 1/51 - Sept. 30/52	352,949	99,531	253,418	230,434	249,242	599	416
Oct. 1/52 - Sept. 30/53	607,820	120,348	487,472	447,156	376,544	980	384
Oct. 1/53 - Sept. 30/54	620,649	109,234	511,415	484,316	413,925	1,164	356
Oct. 1/54 - Sept. 30/55	570,169	96,358	473,811	434,586	391,936	963	407
Oct. 1/55 - Sept. 30/56	750,855	89,868	660,987	569,327	403,437	1,059	381
Oct. 1/56 - Sept. 30/57	915,849	165,769	750,080	693,524	398,704	1,231	324
Oct. 1/57 - Sept. 30/58	908,753	179,024	729,729	682,640	382,794	1,217	315
Oct. 1/58 - Sept. 30/59	917,095	116,471	800,624	747,952	361,857	1,179	307
Oct. 1/59 - Sept. 30/60	1,011,016	27,297	983,719	927,734	348,829	1,247	280
Oct. 1/60 - Sept. 30/61	1,057,348	105,735	951,613	896,000		1,262	

X Includes 95% Passenger Car Contracts, Domestic Contracts, Miscellaneous Contracts and 50% of Truck Contracts from December 31st, 1955.
" " " " " " " 60% " " " " " " 1958.
" " " " " " " 75% " " " " " " 1959.

Average based on December 31st, outstanding contracts falling within the policy year and the December 31st contracts outstanding immediately following the policy year.

and appraisal which is widely used by dealers for the purpose of checking the status of the prospective buyer. Over the years I.A.C. has developed a highly effective and efficient method of checking the credit worthiness of instalment buyers which is done through our company's nationwide branch organizations and specialized credit reference bureaus in Toronto, Montreal and Ottawa where we employ 14 persons for this purpose. These offices keep records of transactions numbering in the hundreds of thousands and maintain ready references on all of these. While this credit service is no doubt an important factor in the very high-grade performance of sales finance receivables, a certain amount of final losses are still suffered by sales finance companies, no matter how good their credit investigation system is. It follows, therefore, that a provision for the risk and for the shouldering of some eventual losses must also be made.

(2) Interest payments on the funds borrowed by the sales finance company are a second major category of costs specifically applicable to the instalment sale which must be recovered in the finance charge. A detailed, financial summary of I.A.C. is presented in Section V below, for present purposes it should be noted that interest payments in the last twelve years have averaged 31.0% of the gross income (from all finance charges) of the Company. The weighted average interest rate on all funds borrowed by I.A.C. at the end of 1961 amounted to 4.95%; a discussion of interest rates paid by the Company will also be found in Section V.

(3) Finally, the finance charge must make a contribution to the "overhead" of the sales finance company which are largely other "general and administrative expenses", i.e. salaries, rent, etc.

This brief listing of the nature of the major costs incurred by sales finance companies is designed to show the complex nature of our business and the variety of cost components which must be taken into consideration in setting the price for the finance charge.

47. Finance Charge Disclosure Proposals

One aspect of consumer credit and the finance charge which has received considerable public attention in Canada concerns the so-called finance charge disclosure. Its advocates argue that consumer credit service charges should be expressed in terms of simple annual rates of interest. The (Gordon) Royal Commission on Canada's Economic Prospects received the following recommendation on this subject:

> "But we are of the view that there is one form of legislation which is as desirable in periods of inflation as in other periods, whose effects would be wholly salutary both in assisting the price mechanism in the performance of its essential function and in controlling inflation, and which is apparently within the competence of the federal parliament. This is legislation to ensure that those institutions such as instalment finance companies, loan companies, money lenders, banks and retail dealers, which extend credit to consumers, state the rate of interest being charged clearly <u>and in such form as will permit consumers readily, without elaborate calculation, to compare the rates charged by different lenders</u>. The price system and monetary policy, which works through the price system, cannot work if prices are not known generally. Advertising, in clear, unequivocal terms of rates of interest being charged on loans to consumers would facilitate the working of the price system and of monetary policy in the realm of consumer credit and consumer transactions generally. It would appear that legislation is needed to induce such advertising of the rates." [1]

48. It should be noted that legislation of this nature has been introduced on three occasions in the Senate of Canada by Senator David Croll. The latest version of the proposed legislation was introduced early

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[1] William C. Hood, <u>Financing of Economic Activity in Canada</u>, 1958, Page 197, (emphasis added).

(3) Finally, the finance charge must make a contribution to the "overhead" of the sales finance company which are largely other "general and administrative expenses", i.e. salaries, rent, etc.

This brief listing of the nature of the major costs incurred by sales finance companies is designed to show the complex nature of our business and the variety of cost components which must be taken into consideration in setting the price for the finance charge.

4) [illegible]

One aspect of consumer credit and the finance charge which has received considerable public attention in Canada concerns the [illegible] credit service charges should be expressed in terms of simple annual rates of interest. The (Gordon) Royal Commission on Canada's Economic Prospects received the following recommendation on this subject:

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[illegible]

in 1962.

49. Once the finance charge is recognized as the price for a package of credit services, the idea that it can be expressed as some type of simple annual interest rate becomes invalid. We would like to classify our objections against the simple annual interest rate method of finance charge disclosure as follows:

(1) <u>The nature of the finance charge</u>:

A. The further one departs from a large, single payment loan, the further the charge on the loan departs from what is properly called interest.

B. The major component of a consumer finance charge is for service and risk rather than forebearance, and such a charge is, therefore, more properly viewed as a service charge.

C. The public does not have a concept of borrowing (nor does it borrow money) when purchase credit is involved; the essential transaction in all purchase credit is the sale of a good at a time sale price.

D. The finance charge is a price set by a seller to reimburse him for a time sale made under one set of circumstances, as against a cash sale under a different set of circumstances.

E. From the point of view of the time buyer the finance charge is the price paid for:

i) the credit extended.

ii) the use of the article purchased while it is being paid for.

iii) having the credit service available at the place of purchase.

(2) <u>Practical Difficulties</u>:

A. For some types of consumer credit the figures required to convert finance charges into simple annual rates on a properly comparable basis are not uniformly available, because the information is not known when the credit is granted.

B. Most merchants are not mathematicians; they are going to have a difficult time arriving at approximate interest rates.

C. There are several recognized formulae for approximating effective interest rates.

(3) Trade Practice Consequences:

Competition among sellers of consumer durable goods is such that proposals for converting all finance charges into annual interest rates could backfire if the finance charge were buried in the price of a good sold because of a merchant's efforts to quote the lowest possible interest rates. In addition to this, various fees and insurance premiums can be part of the gross finance charge, and this may make it difficult to identify the finance charge accurately.

50. These ideas are applicable in various degrees to many types of consumer credit, but the present section applies their logic to instalment sales financing. We have already pointed to the nature of the services involved in granting instalment credit, and to the composition of major costs. We think it is sound to assert that the finance charge obtained by I.A.C. is in the nature of compensation for a service package which should no more be expressed as a simple annual interest rate than the price for any other service purchased by consumers. Any proposal to restate this finance charge as a simple annual rate of interest is an attempt to mould the entire finance charge as interest (i.e. a payment for forebearance), which it is obviously not. In addition, requiring such a statement might have adverse consequences for the consumer.

51. All our conditional sale contracts disclose fully the difference between the cash sale price and the time sale price; this can be seen in the specimen contract appearing on page 34 . We have followed this practice since the establishment of our Company, and we believe it to be a full and unequivocal method of disclosure. We submit that the consumer should be given the opportunity to make comparisons

B. Most merchants are not mathematicians; they are going to have a difficult time arriving at approximate interest rates.

C. There are several recognized formulae for approximating effective interest rates.

II) [illegible]

Competition among sellers of consumer durable goods is such that proposals for converting all finance charges into annual interest rates could backfire if the finance charge were buried in the price of a good sold because of a merchant's efforts to quote the lowest possible interest rates. In addition to this, various fees and insurance premiums can be part of the gross finance charge, and this may make it difficult to identify the finance charge accurately.

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Nethercut & Young

Toronto, Ontario

A1435

IAC CONDITIONAL SALE CONTRACT

TO PURCHASER: PLEASE READ CONDITIONS ON REVERSE SIDE, CAREFULLY. 84

PURCHASER'S STATEMENT (A CO-SIGNER MUST COMPLETE A SEPARATE STATEMENT)

FOR I.A.C. USE ONLY

MR. MRS. MISS | FIRST NAME IN FULL AND INITIAL | ← USE BLOCK LETTERS → | SURNAME

MAIL ADDRESS (USE BLOCK LETTERS)

CORRESPONDENCE IN: ENGLISH ☐ FRENCH ☐

RESIDENCE ADDRESS (IF DIFFERENT) | HOW LONG | RES. PHONE NO. | AGE | M ☐ S ☐ | NO. OF DEPENDENTS | IF MARRIED WOMAN, HUSBAND'S NAME | HIS AGE

LANDLORD'S NAME - ADDRESS | PREVIOUS HOME ADDRESS | HOW LONG

EMPLOYED BY | HOW LONG | BUS. PHONE NO | OCCUPATION - POSITION - NUMBER (IF ANY) | APPROX. MONTHLY INCOME | COMMISSION ☐ SALARY ☐

PREVIOUS EMPLOYMENT | HOW LONG | NAME AND ADDRESS OF BANK | ACCOUNT NO. | HAVE YOU AN I.A.C. CREDIT REFERENCE CARD | YES ☐ NO ☐

LAST CAR BOUGHT FROM | ADDRESS | DATE | FINANCED BY | BALANCE OWING $

NAME AND ADDRESS OF TWO RELATIVES OR FRIENDS OTHER THAN HUSBAND OR WIFE (1) NAME ADDRESS (2) NAME ADDRESS

REFERENCES: NAME OF FIRMS AND FINANCE COMPANIES WITH WHICH YOU ARE DOING OR HAVE DONE BUSINESS ON CREDIT. (IF NONE, GIVE PERSONAL REFERENCES.)

NAME | A/C # | ADDRESS | OPEN ☐ CLOSED ☐ (2) NAME | A/C # | ADDRESS | OPEN ☐ CLOSED ☐

INSURANCE

COLLISION AND COMPREHENSIVE INSURANCE IS DESIRABLE ON ALL VEHICLES. IT IS REQUIRED WHERE THE UNPAID BALANCE TO BE FINANCED EXCEEDS $800.00. PLEASE CHECK ONE OF THE FOLLOWING SQUARES.

☐ PLEASE INCLUDE THE PREMIUM IN THIS CONTRACT. A COMPLETE APPLICATION TO MERIT INSURANCE COMPANY IS ATTACHED.

☐ THE REQUIRED INSURANCE COVERAGE HAS BEEN PROCURED THROUGH ________ (NAME OF AGENT)

________ (ADDRESS OF AGENT) ________ (NAME OF INSURANCE COMPANY)

EVIDENCE OF SUCH INSURANCE IS ATTACHED - OR WILL BE PROVIDED - SHOWING THAT THE INTERESTS OF PURCHASER, VENDOR/ASSIGNEE ARE PROTECTED.

Vendor hereby sells and Purchaser(s) hereby jointly and severally purchase(s) and agree(s) to pay for, subject to the terms and conditions herein and on the reverse hereof, the following goods, delivery and acceptance of which in good condition and as offered is hereby acknowledged by Purchaser(s).

	YEAR	NEW OR USED	MAKE - TRADE NAME	BODY TYPE IF TRUCK GIVE TONNAGE	NO. OF CYL.	MODEL NO. OR LETTER	SERIAL NUMBER	MOTOR NUMBER	LICENCE NO.
ONE									

CASH PRICE (INCLUDING ALL TAXES) .... $

Add—LICENSE FEE AND EXTRA EQUIPMENT (describe) .... $

TOTAL DELIVERED PRICE .... $

DEDUCT { TRADE-IN (........ (describe)) $ .... ; LESS-OWING TO: [ ] $ .... ; EQUITY .... $ .... ; ADD CASH PAYMENT .... $ .... $

UNPAID BALANCE .... $

Add—INSURANCE PREMIUM (indicate coverage below)

☐ Comprehensive ☐ $ .... Deductible Collision

☐ Public Liability and Property Damage .... $

AMOUNT FINANCED .... $

Add—FINANCE CHARGE FOR .... MONTHS TERM $

RECORDING CHARGE .... $ 1.00

TOTAL DEFERRED PAYMENTS .... $

Said Total Deferred Payments are payable at the office of Industrial Acceptance Corporation Limited, at .... in monthly instalments of $ .... on the same day of each successive month and commencing on the .... day of .... 19 .... (Convenient date within 45 days) the final instalment being for the amount remaining unpaid; OR in instalments as set out in the Schedule of Payments hereunder; with interest thereon after maturity at the rate of 12% per annum. A negotiable promissory note has been given by Purchaser to Vendor as evidence of, but not in payment for, said Total Deferred Payments.

THIS SPACE TO BE USED ONLY FOR OTHER THAN EQUAL MONTHLY PAYMENTS

SCHEDULE OF PAYMENTS

PYM'T NO.	AMOUNT	DATE DUE	PYM'T NO.	AMOUNT	DATE DUE
	$			$	
	$			$	
	$			$	
	$			$	

It is agreed and declared that the terms and conditions set forth on the reverse hereof are part of this contract and binding upon the parties hereto. The Purchaser acknowledges receipt from Vendor of a true copy of this agreement. The value placed on the trade-in has been determined by the parties acting in good faith.

SIGNED IN DUPLICATE at .... (Place where contract actually signed) on .... 19 (Date)

(Vendor sign Trade Name here) ________ (Purchaser sign here) ________

By .... (Signature and Title of Authorized Official) (Co-Signer) ________

REV. 1/61 Salesman's Name .... CN7 NS NB ONT.

I.A.C. A/C. No. ________

NEGOTIABLE INSTRUMENT

Only use this space for other than equal monthly instalments

SCHEDULE OF PAYMENTS

$ .... At .... (PLACE WHERE NOTE ACTUALLY SIGNED) Date .... 19 ....

FOR VALUE RECEIVED I promise to pay to the order of:

.... (VENDOR'S NAME HERE)

the sum of .... /100 DOLLARS

at the office of INDUSTRIAL ACCEPTANCE CORPORATION LIMITED in the city of ....

in monthly instalments of $ .... each on the same day of each successive month, the first instalment to be payable .... 19 .... the final instalment to be the amount remaining unpaid, OR in instalments as set out in the Schedule of Payments herein. Each instalment, if unpaid at maturity, shall bear interest at the rate of TWELVE PER CENT, per annum, from the date of maturity and upon default in payment of any instalment upon the due date thereof all remaining instalments shall forthwith become due and payable without notice.

Purchaser sign here ________

(Co-Signer) ________

Nethercut & Young

Toronto, Ontario

A1436

CONDITIONS OF SALE CONTRACT

The following terms and conditions are part of the contract set forth on the reverse side hereof and are binding upon the parties thereto.

1. Title to, property in and ownership of said goods shall remain in Vendor at Purchaser's risk until all amounts due hereunder, or any renewals or extensions hereof or of said note, or under any judgment secured, are paid in cash. Purchaser agrees to be liable for all loss damage to said goods, however caused, and assumes all of the obligations and risks of an absolute owner and agrees to indemnify and save harmless Vendor and Vendor's assigns from any and all loss or claim for loss or damage to persons or property caused by reason of the ownership, use or operation of said goods.

2. Purchaser shall not dispose of said goods, use said goods illegally or improperly and shall disclose the exact location of same and permit Vendor to examine same upon request; and shall properly house and keep in good rep[illegible] said goods free of all liens and charges. Vendor may at his option pay any [illegible]pair lien or other change and add the amount thereof to the balance outstanding hereunder and the amount so paid shall become due and payable forthwith.

3. Purchaser shall insure and keep insured said goods against the risks of fire, theft and collision, with loss payable to Industrial Acceptance Corporation Limited. If an insurance premium is included in the total deferred payments Vendor's obligation shall be limited to the transmission of the Purchaser's application for insurance to the regular insurers of Industrial Acceptance Corporation Limited, and to giving credit to Purchaser for any remaining part of the insurance premium if the risk is refused [illegible] in part by said insurers. If no insurance premium is included in the total deferred payments Purchaser shall furnish to Industrial Acceptance Cor[illegible]mited, within two days of the present date, a certified copy of a policy of ins[illegible]ance covering said goods against said risks; if said risk is refused in whole or in part by the insurers of said Corporation or any policy covering said risks is cancelled after having been in effect, Purchaser shall furnish to said Corporation a certified copy of a policy of insurance covering said risks within two days of notice of said refusal or of said cancellation, as the case may be. Purchaser shall also furnish to said Corporation a certificate of renewal of said insurance at least ten days before the expiry of any policy. Should Purchaser fail to keep said goods so insured and to furnish evidence thereof, Vendor or said Corporation may, at their option, insure said goods and add the premium to the amount remaining outstanding hereunder and the full amount remaining outstanding hereunder shall immediately become due and payable, whether or not Vendor or said Corporation have so insured said goods. Purchaser hereby authorizes his insurers to pay Industrial Acceptance Corporation Limited the proceeds of any insurance on said goods and all return premiums, and does hereby assign and transfer to said Corporation all such proceeds and return premiums, and any payments so made to said Corporation may be applied to the repair of said goods or to the balance remaining unpaid hereunder at the option of said Corporation.

4. Time is of the essence of this agreement and if Purchaser defaults hereunder or violates any term hereof or goes into bankruptcy or if said goods be substantially damaged or destroyed or seized under any judicial process or for rent or confiscated or if Vendor or his assigns feel unsafe or insecure, all remaining instalments shall, without notice, become due and payable and Vendor may forthwith take possession of said goods and for such purposes may enter premises without notice or demand and without legal process.

5. If said goods come into the possession of Vendor through repossession, voluntary surrender thereof by Purchaser, or otherwise, Vendor may at his option retain said goods, in which case all payments previously made shall remain the property of Vendor as liquidated damages and not as a penalty; or Vendor may house or store said goods and repair or re-condition the same and resell the same in such manner and for such amount and upon terms as Vendor deems proper; upon such sale Vendor may accept other goods as part payment of the sale price, but the undersigned Purchaser shall be entitled to be credited only with the actual proceeds when realized and received in cash through the sale of such trade-in after deduction of all expenses, charges and commissions in connection with said goods and in connection with the repairing and re-sale of such trade-in. Purchaser shall be liable for any deficiency. Any surplus shall [illegible] repaid to Purchaser. Purchaser waives all claims for damages arising out of repossession, removal or resale of said goods.

6. All rights and remedies hereunder are cumulative and not alternative. Purchaser warrants that the information given in the "Purchaser's Statement" is true and was given to Vendor to induce Vendor to enter into this contract. In his agreement "goods" shall mean the goods above described and all equipment, attachments, accessories, replacements and repairs which may be placed upon or added to said goods.

7. Purchaser takes notice that this agreement, together with Vendor's title to, property in and ownership of said goods and said note are to be forthwith assigned and negotiated by Vendor to Industrial Acceptance Corporation Limited, and that said Corporation shall be entitled to all of the rights of Vendor free from all equities existing between Vendor and Purchaser. Purchaser hereby accepts notice of such transfer and further accepts notice that Vendor is not an agent of said Corporation for any purpose and that said Corporation will accept no evidence of payment other than its official receipt. If this contract or said note is placed in the hands of a solicitor, there shall be added to the outstanding balance 15% of such balance as solicitor's fees.

8. Purchaser acknowledges that this agreement constitutes the entire contract and that there are no representations, warranties, or conditions, expressed or implied, statutory or otherwise, other than as contained herein. Without limiting the generality of the foregoing. Purchaser agrees that there is no warranty as to the "Year Model" even if stated herein.

9. Save as aforesaid, this agreement shall apply to, enure to the benefit of, and bind the heirs, executors, administrators, successors and assigns of the Purchaser and Vendor.

VENDOR'S ASSIGNMENT

FOR VALUE RECEIVED the undersigned does hereby sell, assign and transfer to Industrial Acceptance Corporation Limited his right, title and interest in and to the within contract and promissory note therein referred to. Vendor does also hereby sell to said Corporation the goods referred to in the within contract, subject to the rights of the Purchaser as set out therein.

Vendor warrants that said goods are completely and accurately described in said contract and that they are new and unused (unless otherwise stated in said contract) and that the portion of the down payment described as cash was in fact paid by Purchaser in cash and not its equivalent and that no part thereof was loaned to Purchaser by Vendor.

Vendor guarantees the performance of said contract and jointly and severally with Purchaser agrees to pay the Corporation on demand the entire amount unpaid under said note and/or contract and any deficiency arising out of the repossession and resale of said goods as provided therein. Vendor agrees that his liability hereunder shall not be affected by any settlement, extension of credit or variation of terms of said contract, nor additional security taken by the Corporation, nor by any negligence on the part of the Corporation in asserting its rights, nor by reason of any loss, depreciation of or damage to said goods, nor any omission in filling or recording said contract or any renewal thereof, nor the termination for any cause whatsoever of any right of the Corporation against Purchaser and that nothing but full payment in cash to the Corporation of the amount owing by Purchaser shall release Vendor from his liability hereunder.

If said goods be repossessed Vendor agrees to store same safely for the account of said Corporation without charge and Vendor agrees not to sell or use said goods except upon written instructions from the Corporation. In the event of resale, all monies, goods and securities paid or delivered on such resale shall be the property of said Corporation and Vendor shald hold same in trust at Vendor's risk and shall promptly pay over and deliver same to the Corporation.

Upon payment by the undersigned to Industrial Acceptance Corporation Limited of the amount secured by the within contract, the within contract and all of the right, title and interest of Industrial Acceptance Corporation Limited in and to the said contract and the property therein described shall be forthwith automatically reassigned to the undersigned without the necessity of any formal or other assignment being executed and delivered by the Industrial Acceptance Corporation Limited.

IN WITNESS WHEREOF said Vendor has subscribed his name this ________________ day of ____________________________ 19 ___

(Vendor Sign Trade Name here) ______________________________

By ______________________________

(Signature and Title of Authorized Official)

The undersigned endorser(s) hereby expressly waive(s) presentment, protest and notice of dishonor and of protest of the within note.

____
(Additional Endorser(s)

____
(Address)

Pay to the order of Industrial Acceptance Corporation Limited, presentment, protest and notice of dishonor and of protest of the within note being hereby waived.

(Vendor Sign Trade Name here) ______________________________

By ______________________________

(Signature and Title of Authorized Official)

with a dollar denominator, and not in terms of a percentage rate which carries a misleading implication of being "interest" charged by the credit grantor. A further implication - always lurking in the background of any interest rate comparison - is that a rate above 6% has usurious overtones. This, of course, is a prejudice which has no foundation. We believe that it is more important for the buyer to know that the financing of a durable good on an instalment plan will cost him a given number of days' pay rather than a percent per annum. He can then decide whether to forego the purchase, or whether to proceed with it. When a man rents an apartment he is not told by the landlord that his rental will be equal to X percent per annum on the construction cost of the apartment. The rental is quoted in dollars per month. The fact that this monthly rental may equal a certain percentage gross or net yield on the landlord's investment is really of no interest to the tenant. May we suggest too, that since the purpose of disclosure is said to be to enable the user of credit to compare costs, the only basis of comparison possible is that of dollars. Methods of stating costs of borrowing money vary among banks, and they in turn differ from loan companies, while credit unions use still other methods. While the so-called finance charge disclosure issue has received previous attention by experts and legislators, we recommend that this Royal Commission should investigate the issue fully.

52. In addition we would like to point out that the principle stated here has received the attention of Provincial Governments. In the Province of Alberta, dollar-and-cents or a rate of interest disclosure is required under Chapter 66 of The Credit and Loan Agreements Act; and the government of the Province of Manitoba is presently understood to be considering legislation of a similar nature. We would like to conclude this topic by stating that we endorse the principles of such legislation as long as it requires dollar disclosure as the most sensible method of informing the Canadian consumer of the cost of consumer credit.

53. Finance Charge Example

In setting the time sale price, dealers usually use rate charts supplied by sales finance companies with precalculated monthly instalment payments. Since merchandising and competitive practices vary from time to time and place to place, the time sale price is subject to variation so that it is difficult to quote specific figures as being representative of the finance charge. For the purpose of illustrating fluctuations, we have compiled a composite post-war picture of the prevailing finance charges on new cars that were used to establish time sale prices as set forth in the charts supplied to dealers by I.A.C. Table II - 4 shows the basic rate per $100 of unpaid balance from 1946 to the present, on a 24 month contract. It should be noted that the rate covers new automobiles only; on used cars the corresponding rate would be higher because of greater risk and smaller average balances.

54. We are including this example for the purpose of illustrating the fluctuations in the prevailing charge that determine the difference between the time price and the cash price and thus, cost to the buyer. Between 1946 and 1955, only one add-on factor was used at any one time to establish the time sale price and it rose by slightly more than 5% from $14.00 per $100 of the amount financed to $14.76, on a 24 month contract. However, in response to changing competitive conditions and the rise in the cost of doing business, more flexible pricing in arriving at a time sale price developed among dealers. Table II - 4 shows the approximate prevailing range in finance charges on new automobiles since 1955. Depending upon the pricing policy of the dealer which, in turn, is influenced by competition in his locality, costs, etc., the purchaser financing a new automobile today pays a basic rate per $100 financed which can be either 2.6% less, 10.7% more or 28.6% more than it was in 1946. One-half of the new automobile paper bought by I.A.C. is in the lowest rate category shown on Table II - 4 and the percentage of all business done at the lowest category has been rising steadily since April, 1960. From the consumer's viewpoint, it should be realized that the typical finance charge is higher today since

[illegible]

In setting the time sale price, dealers usually use rate [illegible] instalment payments. Since merchandising and competitive practices vary from time to time and place to place, the time sale price is subject to variation so that it is difficult to quote specific figures as being representative of the finance charge. For the purpose of illustrating fluctuations, we have compiled a composite post-war picture of the prevailing finance charges on new cars that were used to establish time sale prices as set forth in the charts supplied to dealers by I.A.C. Table II - 4 shows the basic rate per $100 of unpaid balance from 1946 to the present on a 24 month contract. It should be noted that the rate covers new automobiles only; on used cars the corresponding rate would be higher because of greater risk and smaller average balances.

4. We are including this example for the purpose of illustrating the fluctuations in the prevailing charge that determine the difference between the time price and the cash price and thus, cost to the buyer. Between 1946 and 1955, only one add on factor was used at any one time to establish the time sale price and it rose by slightly more than 5% (from 14.00 per $100) of the amount financed to $14.76, on a 24 month contract. However, in response to changing competitive conditions and the rise in the cost of doing business, more flexible pricing in arriving at a time sale price developed among dealers. Table II - 4 shows the approximate prevailing range in finance charges on new automobiles since 1955. Depending on the pricing policy of the dealer which, in turn, is influenced by [illegible] in his locality, costs, etc., the purchaser financing a new automobile today pays a basic rate per $100 financed which can be either 2.6% [illegible] 0.7% more or 25.0% more than it was in 1946. One-half of the new auto[illegible]

[illegible] Table II - 4 and the percentage of all business done at the lowest category has been rising steadily since April, 1960. From the consumer's viewpoint [illegible]

Table II - 4

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

Finance Charge per $100 of Unpaid Balance on New Cars

1946 to Date

24 MONTH CONTRACT

	BASIC RATE		
1946 - 1947 [a]	14.00		
1948 - 1950 [a]	14.50		
1951 - 1954 [a]	15.50		
Jan. 55 - June 55 [a b]	14.76		
	LOW	MED.	HIGH
July 55 - Apr 56 [a b]	14.76		16.76
May 56 - Nov 56 [a b]	14.76		16.76
Dec. 56 - Sept 57	16.30		18.50
Oct. 57 - Aug. 58	16.30		18.50
Sept. 58 - May 59	14.00		17.70
June 59 - Aug. 59	15.00		18.70
Sept. 59 - Mar. 60	15.00		18.70
Apr. 60 - Feb. 61	13.64 [c]		18.70
Mar. 61 - Dec. 61	13.64 [c]		18.70
Jan. 62	13.64 [c]	15.50	18.00

Notes:
a) Assumes insurance included; if not, add 1% flat to basic rate regardless of term.
b) Average of the 7 - 7 3/4% range. Graduated scale was as follows: Up to $1,800 - 7 3/4%, declining gradually to 7% at $2,350.
c) 6% discount.

the average amounts financed and the average length of the repayment period have risen with the price of automobiles. Both of these factors are dimensions in the total cost to the consumer for the time sale, even though they have no bearing on the time sale.

55. Basically I.A.C. is in the position of discounting instalment contracts drawn between merchant or dealer and his customer. The charge for financing elected by the dealer is generally based on charts provided by I.A.C. This charge may be greater than, equal to or less than that required by I.A.C. for its services. Where the charge is greater than that required by I.A.C., the residue is set up to the dealer's credit and generally called dealer reserve.

56. This dealer reserve serves the following purposes:

1. To compensate the dealer for the cost incurred in advertising his finance plan, completing the contract, credit interviews, use of his office space and staff for this extra work.
2. As a credit fund to cover expenses when a default occurs, these including reconditioning, display and resale. In addition, the dealer may also suffer a loss in the resale of the vehicle.

Finance Charge By I.A.C. to Merchant

56A. Having presented an explanation with an example of the merchant's or dealer's (seller's) time sale price and an indication of the behavior of finance charges included by merchants and dealers, some further presentation of the charge by the sales finance company to the merchant should be made, which necessarily embraces both wholesale and retail financing.

56B. The charges levied by I.A.C. vary between wholesale and retail transactions. Variations in the latter are based on the amounts involved, characteristics of the transaction (such as new or used vehicle, home appliances, industrial machinery or farm equipment), territories involved (branch point or remote area), direct or indirect collection handling, etc.

56C. Specifically, while the I.A.C. charge to a dealer may be $6.00 per $100 (repayable in 12 equal monthly instalments) financed on fleet business, on individual retail new car purchases it could be between $6.00 and $7.00 per $100 per year. The charge on a retail used car transaction will be higher, charges increasing progressively with the vintage of the unit. The older the vehicle, the greater the attendant risk and the lower the unpaid balance involved, making necessary increased charges per $100 financed. Wholesale financing charges, on the other hand, are calculated on the number of days and number of dollars outstanding. A new car wholesale transaction remains outstanding approximately 75 days. A typical charge per $100 for 75 days would be $1.60 including comprehensive insurance coverage. To endeavour to cover a wide variety of examples and types would be voluminous. Therefore, we have averaged charges over the past 10 years to indicate the resulting retail and wholesale income and thus have shown in the table below, the overall income per $100 outstanding for a year on the mix of business actually handled in each year.

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IAC GROSS INCOME PER YEAR ON $100 OF INVESTMENT

	RETAIL $	WHOLESALE $	TOTAL $
1952	14.92	7.99	13.47
1953	14.02	7.85	12.81
1954	13.91	7.85	12.73
1955	14.49	6.85	13.14
1956	13.12	6.96	11.99
1957	13.89	8.26	12.95
1958	14.20	8.19	13.26
1959	14.15	8.49	13.19
1960	14.50	8.88	13.56
1961	14.49	8.23	13.53

56D. It should be noted that the above retail income provides for customer benefits such as life insurance where applicable, all risk physical damage insurance for farm equipment and some other types of commercial and industrial equipment and property protection insurance in the event of total loss on domestic appliances, home entertainment products and furniture.

56E. The cost of comprehensive insurance is also included in the wholesale income and these premiums plus the premiums on the retail coverages are paid out to insurance companies.

SECTION III

INSTALMENT CASH LOANS

57. Another sphere of our business is in the field of instalment cash loans usually made to individuals (or small enterprises) through the operations of a wholly-owned subsidiary, Niagara Finance Company. In contrast to instalment sales financing done by I.A.C., Niagara Finance makes loans on the security of goods already owned, or on the borrower's signature only. Full details about Niagara Finance's activities are published annually in the Report of the Superintendent of Insurance for Canada on Small Loans Companies and Money-Lenders. The finance charges on loans up to $1,500 are governed by the Small Loans Act; the schedule of maximum rates allowed under the Act varies with the size and the maturity of the loan:

		Maturity in Months		
		20 or Under	21 - 30	More than 30
Size of Loan		(Per Cent Per Month On Unpaid Balance)		
Up to $300		2.0	1.0	1.0
301 - 500	(Marginal rate)	1.0	1.0	1.0
501 - 1,000	(Marginal rate)	1.0	1.0	1.0
1,001 - 1,500	(Marginal rate)	0.5	0.5	1.0

Niagara Finance's business can be divided into the following categories:

(1) Small Loans. Since January 1, 1957 this includes all personal cash loans of $1,500 and under.

(2) Loans, other than small loans. This includes loans of more than $1,500.

(3) Conditional Sale Agreements. This is instalment sales credit as described in Section 1, page 8 , frequently arising out of private sales.

As shown in Appendix 1, both the absolute amount of credit and the percentage of all consumer credit provided by licensees under the Small Loans Act has increased appreciably during the last decade. A similar upward trend is evident in the operations of Niagara Finance Company. Table III - 1 shows the details of the volume of our personal cash loans as well as

Table III - 1

NIAGARA FINANCE COMPANY LIMITED

DIRECT SECURED INSTALMENT LOANS, VOLUME AND BALANCES OUTSTANDING AT YEAR-END; NIAGARA FINANCE BALANCES OUTSTANDING AS A PERCENTAGE OF INDUSTRY, 1951 - 1961 (MILLIONS OF $)

	Volume of Business (Millions of $)	Balances Outstanding At Year-End (Millions of $) *	Balances Outstanding: Niagara Finance as a Per Cent of Industry Total **
1951	$12.7	$8.0	7
1952	22.9	14.9	10
1953	24.9	18.3	10
1954	30.4	22.8	11
1955	36.9	28.4	10
1956	48.3	38.0	11
1957	53.7	40.4	11
1958	73.4	51.7	13
1959	86.3	62.9	13
1960	103.4	81.1	15
1961	113.2	92.5	16

* As per I.A.C. consolidated balance sheet. This figure is slightly higher than the one appearing in the Report of the Superintendent of Insurance because it includes accrued income on small loans.

** Includes all loans of small loans companies and licensed money lenders. Figure used is reported by Bank of Canada; it is somewhat larger than the corresponding totals from the Reports of the Superintendent of Insurance.

balances outstanding at year-end since 1951. The amount of instalment sales credit included is small; total balances outstanding at the end of 1960 amounted to $688,000. The last column in Table III - 1 also shows that the percentage of all small loan companies and licensed money-lenders outstanding balances at year-end accounted for by Niagara Finance has increased from a 10 to 11% range between 1952 and 1957, to 15% at the end of 1960, and 16% at the end of 1961

58. Generally speaking, the conduct of the legitimate personal instalment cash loan business in Canada is under close government supervision and control, and we have no specific proposals or suggestions for this Royal Commission in regard to this phase of our activities.

59. In order to obtain a composite picture of the typical Niagara Finance Company customer, we undertook a special survey of 2,422 loans made in 49 of the 202 Niagara Finance branches in October 1961. The results of this survey are presented in Section VI below.

SECTION IV

WHOLESALE, BUSINESS, INDUSTRIAL AND COMMERCIAL CREDIT

60. I.A.C.'s extensive wholesale, industrial, commercial and business financing activities can be summarized as follows:

1. Wholesale financing in connection with the sales of durable goods by manufacturers, distributors, importers, etc. to retailers for display and inventory purposes.

This is a traditional business financing activity for sales finance companies. It is extended mostly to motor vehicle dealers, even though similar credit arrangements are available for wholesale or inventory financing of other consumer durable goods. Motor vehicle wholesale financing is a highly specialized credit service provided to a distributive industry characterized by small establishments. Their financial strength is usually inadequate to secure sufficient credit to carry enough vehicles in stock to meet the requirements of the manufacturer and customers. In response to this need, the sales finance companies developed a simple and sound technique for providing this particular type of credit. An automobile dealer normally elects to do business with a certain finance company which sets up lines of credit at the wholesale and the retail level for that dealer. These are based on an analysis of the dealer's financial position, market potential, his experience and reputation in the community, his character and capacity, age and health and organization, the product he sells, its market acceptance, probable volume, etc. Once these factors have been established to the satisfaction of the finance company, credit lines are approved. When the vehicles ordered by the dealer are ready for shipment, the manufacturer presents a wholesale conditional sale contract, signed on behalf of the dealer by his attorney, to the local office of the sales finance company. The latter issues a cheque to the manufacturer (after a delay equaling the approximate transit period) who is thus paid when the vehicles are deemed to have been received by the dealer. By purchasing the conditional sale contract, the finance company acquires the manufacturer's title and interest in the vehicle. Although the document is payable

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SECTION IV

[illegible]

14. I.A.C.'s extensive wholesale, industrial, commercial and business financing activities can be summarized as follows:

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on demand, the working arrangement is that the dealer pays the finance company as each vehicle is sold at retail.

The importance of wholesale credit provided by all sales finance companies and by I.A.C. is summarized in Table IV - 1 on page 44. The volume of I.A.C. wholesale financing has increased from approximately $250 million in the early 1950's to an average of $341 million in the last three years. Balances outstanding at the end of 1961 amounted to $54 million. Figures for all sales finance companies have been available since 1956; they show that the volume of financing averages about $1¼ billion annually, with year end balances outstanding amounting to approximately $200 million. I.A.C. typically accounts for about one-quarter of the volume of this financing, and a slightly higher ratio in the balances outstanding at year end.

A related type of financing provided for the most part to automobile dealers consists of capital loans for the purpose of establishing and organizing agencies. This enables experienced automobile men to get into business on a competitive basis and I.A.C. has assisted hundreds of small businessmen in this manner over the years.

2. Sales Financing: Retail Commercial and Industrial Paper

Comparable to the consumer instalment sales financing activities of I.A.C. (discussed in Section II), a similar financing service is available to sellers and buyers of commercial and industrial equipment of all types. I.A.C. designs and administers the instalment sales and lease plans for equipment manufacturers, distributors and dealers and provides funds which enables Canadian business and industry to acquire the up-to-date capital equipment essential to increase efficiency, productive capacity and growth potential. Payments are made by the purchaser on a pay-out-of-earnings basis. Repayment schedules can be designed to coincide with seasonal earnings or to match depreciation charge-out if so desired. Following is a partial list of the capital equipment available throughout I.A.C. industrial plans: Automatic vending equipment, Commercial and executive aircraft, Commercial heating and air conditioning, Commercial marine equipment, Communications equipment, Construction and roadbuilding equipment,

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Table IV - 1

WHOLESALE PAPER PURCHASED AND BALANCES OUTSTANDING:
ALL SALES FINANCE COMPANIES AND
INDUSTRIAL ACCEPTANCE CORPORATION LIMITED
(MILLIONS OF $)

	ALL SALES FINANCE COMPANIES		INDUSTRIAL ACCEPTANCE CORP.		I.A.C. AS A % OF ALL COMPANIES	
	Wholesale Paper Purchased	Balances Outstanding At Year-End	Wholesale Paper Purchased	Balances Outstanding At Year-End	Paper Purchased	Balance Outst. At Yr.End
1950			240	30		
1951			255	36		
1952			259	36		
1953			273	35		
1954			195	22		
1955			299	57		
1956	1,213	182	339	52	28	29
1957	1,185	202	301	57	25	28
1958	1,105	191	283	55	26	29
1959	1,307	197	346	58	26	29
1960	1,354	229	354	68	26	30
1961	1,230	179	323	54	26	30

Dairy and creamery equipment, Garage and service station equipment, Hotel and restaurant equipment, Industrial and commercial machinery, Laundry and dry cleaning equipment, Logging and lumbering equipment, Manufacturing and processing machinery, Materials handling equipment, Mining and quarrying machinery, Office and store equipment, Plant, machine shop and welding equipment, Pre-engineered buildings, printing and lithography equipment, Radio and television installations, Recreation centre installations, Refrigeration equipment and packaging, Sawmill and woodworking machinery, Shoe and leather machinery, Trucks, buses and transportation equipment, Medical and dental equipment. There are also special plans to facilitate the sale and purchase of a wide range of equipment essential to modern farming, for which special plans have been developed.

A survey of our retail, industrial and commercial sales financing in 1961 is summarized in Table IV - 2.

Table IV - 3 shows both the volume and the outstanding balances of commercial and industrial financing by sales finance companies, as well as I.A.C., in the last decade. Total volume of paper purchased by all sales finance companies has increased from a level of slightly more than $200 million in the early Fifties to approximately $350 million annually in more recent years. The end-of-year outstanding balances have increased from $167 million at the end of 1952 to $401 million at the end of 1961. The volume of industrial paper purchased by I.A.C. has increased from approximately $70 million in the early Fifties to $135 million in 1959, $141 million in 1960; and in 1961 it amounted to $132 million. Balances outstanding on the books of I.A.C. at year-end have risen from $45 million in 1951 to $162 million at the end of 1961. I.A.C.'s outstanding balances throughout the early and middle Fifties ranged between 34% and 38% of the industry total; in recent years, this ratio has averaged about 40%.

3. Other commercial and business financing. In this classification we include a variety of activities which have received increasing attention on our part in recent years.

[illegible] equipment, Garage and service station equipment, Hotel and restaurant equipment, Industrial and commercial machinery, Laundry and dry cleaning equipment, Logging and lumbering equipment, Manufacturing and processing machinery, Materials handling equipment, Mining and quarrying machinery, Office and store equipment, Plant, machine shop and welding [illegible] [illegible] frigeration equipment and packaging, Sawmill and woodworking machinery, Shoe and leather machinery, Trucks, buses and transportation equipment, Medical and dental equipment. There are also special plans to facilitate the sale and purchase of a [illegible] range of equipment essential to modern farming for which special plans have been developed.

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3. Other commercial and business financing. In this classification we include a variety of activities which have received increasing attention on our part in recent years.

Table IV - 2

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

RETAIL INDUSTRIAL AND COMMERCIAL SALES INSTALMENT FINANCING

1961

Amount Financed	Number of Contracts	Percent of Contracts
$1,000 or Less	8,911	49.1%
1,001 - 5,000	6,003	33.1
5,001 - 50,000	3,129	17.2
50,001 and over	112	.6
	18,155	100.0

Classification by Industry	Percent of Contracts
Farm tractors and equipment	19.4%
Construction equipment	13.9
Plant machinery	12.3
Restaurant and hotels	12.2
Lumber and sawmills	6.2
Refrigeration and air-conditioning	2.0
Electronic equipment	1.5
Pre-engineered buildings	.4
Other industrial and loans	32.1
	100.0

Table IV - 3

COMMERCIAL AND INDUSTRIAL SALES INSTALMENT FINANCING,

VOLUME AND BALANCES OUTSTANDING IN CANADA

ALL INSTALMENT FINANCE COMPANIES AND IAC, 1951-1961 (MILLIONS OF $)

	All Sales Finance Companies		Industrial Acceptance Corporation		IAC as A Percent of All Companies	
	Volume of Paper Purchased (Million $)	End of Year Balances Outst (Million $)	Volume of Paper Purchased (Million $)	End of Year Balances Outst. (Million $)	Volume	Balances
1951	168	127	56	45	33	35
1952	228	167	82	64	36	38
1953	229	184	75	65	33	35
1954	174	164	56	55	32	34
1955	218	192	75	70	34	36
1956	324	279	121	107	37	38
1957	291	288	102	107	35	37
1958	265	257	112	114	42	44
1959	356	344	135	133	38	39
1960	366	393	141	158	39	40
1961	350	401	132	162	38	40

(a) Leasing and Lease Financing. As an additional service for users and a merchandising tool for sellers of capital equipment, I.A.C. has established leasing facilities for those cases where the use of an asset, rather than its outright ownership, suits the particular requirements of a business or industry. I.A.C. will purchase equipment to a company's exact specifications and lease it on terms to suit the user's special requirements; it will also purchase and lease back equipment already owned and discount existing leases. Or, I.A.C. will finance leases for manufacturers, dealers, distributors or leasing companies. Leasing applies to a broad range of capital equipment items.

(b) I.A.C. Capital Loan Service. In 1960, I.A.C. established a capital loan service designed to provide medium-term funds for the growth of established companies, partnerships or individuals. Reasons for such loans include expansion, modernization, new lines, acquisitions, etc. This service augments existing sources of credit or capital. Terms usually range up to five years and longer in special cases. The loans are usually repayable on a monthly basis but terms are flexible depending upon the seasonal nature of the business, or other individual circumstances. The criteria for making loans are: good management capabilities, a reasonable investment in the business and an expectation that the loan benefits the business operation by generating a cash flow sufficient for the ordinary purposes of the business and enable repayment to be made over the term of the loan. These I.A.C. capital loans are of a medium-term nature and do not conflict with commercial or short-term credit offered by other sources. In some cases, the new funds entering a business by way of an I.A.C. capital loan enable increased short-term credit to be obtained.

(c) Advance of funds for working capital purposes to manufacturers, distributors or dealers who wish to retain control of their instalment accounts. Funds are advanced against the security of existing

(a) Leasing and Lease Financing. As an additional service for users and a merchandising tool for sellers of capital equipment, I.A.C. has established leasing facilities for those cases where the use of an asset, rather than its outright ownership, suits the particular requirements of a business or industry. I.A.C. will purchase equipment to a company's exact specifications and lease it on terms to suit the user's special requirements; it will also purchase and lease back equipment already owned and discount existing leases. Or, I.A.C. will [illegible] companies. Leasing applies to a broad range of capital equipment items.

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(c) Advance of funds for working capital purposes to manufacturers, distributors [illegible]

[illegible]

or future instalment receivables by the distributor or dealer. A variation of this is the purchase of portfolio of instalment receivables held by distributors or dealers or other financing agencies covering both consumer and industrial goods. Financing of this type helps to release capital and manpower in these companies for more profitable employment in their lines of business.

(d) Other Commercial Financing.

I Provision of working capital: This is usually required by an individual business during periods of rapid growth; the lending is done on the security of accounts receivable, inventories and other tangible assets. The service is provided by Industrial-Talcott Ltd., a Canadian company founded in 1961 and established on a joint (50-50) partnership basis by I.A.C. and James Talcott Inc. of New York.

II Factoring: Factoring is another service provided by Industrial-Talcott Ltd. It differs from working capital financing in that funds are made available through outright purchase of the customer's accounts receivable without recourse, guaranteeing him against credit and collection losses.

III Rediscounting: Although Industrial-Talcott does not offer a sales financing service directly, it does offer a rediscounting service to smaller financial organizations in circumstances where it is sound to augment their sources of funds.

61. In comparison to the amount of retail consumer instalment paper, cash instalment loans, wholesale finance paper and industrial retail paper outstanding, our leasing, capital loan services and factoring activities still represent a small share of our total earning assets. These lines of business appeared interesting to us some time ago, but the generally restrictive nature of monetary policy during much of the Fifties was a serious inhibiting factor. Increasing participation by other financial institutions in the consumer credit field also led us to realize

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that there would be new opportunities for us to branch out in industrial, business and commercial financing. As a result, our policy of diversification is now directed increasingly at these areas with the general criteria that such new activities are economically sound, earn a satisfactory rate of return on our investment and broaden the scope of Canadian financial markets.

62. Government Competition

We have become increasingly sensitive to competitive developments in the Canadian financial markets, particularly as far as competition from government-owned or government-controlled financial institutions is concerned. In this connection, we would like to point to some recent developments in the activities of the Industrial Development Bank.

63. The background of the Industrial Development Bank has been summarized as follows:

> "The Industrial Development Bank was established in 1944 as part of the programme of the government of the day directed to promoting high and rising levels of employment. It was designed to supplement the activities of other lenders in providing capital assistance to industry with particular consideration to the financing problems of small enterprises ....
> "The President of the Industrial Development Bank has said 'the first thing we have to ask anybody is: why cannot you finance this elsewhere?' In fact, in laying out the business and powers of the Bank, the governing Act stipulates that the Bank may furnish funds when 'credit or other financial resources would not otherwise be available on reasonable terms and conditions'." 1)

> James Coyne, (then President of the Industrial Development Bank) told the House of Commons' Standing Committee on Banking and Commerce in 1956:

> "It was to fill what appeared to be a gap in the existing financial machinery of this country. If the gap did not exist, or if it were filled adequately by private enterprise, presumably there would be no need for a publicly-owned institution of this sort. However, it was found that small business, particularly, had considerable difficulty in getting fixed capital from outside sources ...." 2)

64. Last summer, even as the volume and scope of lending of the Industrial Development Bank was being expanded, this basic intent for the I.D.B. was reaffirmed. Following are the words of Hon. Donald Fleming,

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1) Hood, op. cit., pp. 238-239.
2) Minutes of Proceedings and Evidence, No. 7, 1956, page 245.

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James Coyne, (then President of the Industrial Development Bank) told the House of Commons' Standing Committee on Banking and Commerce in 1956:

> "It was to fill what appeared to be a gap in the existing financial machinery of this country. If the gap did not exist, or if it were filled adequately by private enterprise, presumably there would be no need for a publicly-owned institution of this sort. However, it was found that small business, particularly, had considerable difficulty in getting fixed capital from outside sources ...." 2)

64. Last summer, even as the volume and scope of lending of the Industrial Development Bank was being expanded, this basic intent for the I.D.B. was reaffirmed. Following are the words of Hon. Donald Fleming

1) Neufeld, op. cit., pp. 258-259.
2) Minutes of Proceedings and Evidence, No. 7, 1956, page 246.

Minister of Finance, in the House of Commons on June 30 and July 3, 1961:

> "The third and last point which I should like to mention, Mr. Chairman, concerns the scope of operations of the bank. This point has been mentioned and I do not wish to repeat what I said earlier. However, one honourable member inquired whether there is any intention that the facilities of the bank should be available on terms which simply duplicate the credit facilities available through other institutions, for example, the chartered banks. Let me make it very clear that the industrial development bank is not intended to duplicate existing facilities in this respect. That would not be a proper function of such an institution provided with government resources and government sponsorship. Indeed, the statute is very clear on that point ....
>
> It has been the policy of parliament, from the time this institution was brought into existence by a legislation of the 1944-45 session, that the services and facilities should not duplicate those provided by other institutions under private ownership. The industrial development bank was intended to be a lender in the secondary sense, providing credit particularly in the medium and longer term field not otherwise available to industries. The advantages offered by the act were obviously largely directed to the smaller and medium sized businesses which are not in a position to go into the security market to meet their capital requirements, or borrowing requirements on a scale not justifying resort to the capital market. I think the situation is quite clear in that regard, and has been from the outset of this institution and the legislation governing it, and the bill now before the committee makes no change in this regard." 1)

Mr. Fleming reaffirmed this once again in the House on July 3rd, 1961:

> "There is no thought, Mr. Speaker, of having the bank duplicate existing credit facilities ....
> "An applicant who goes to the industrial development bank must establish, and it is proper that he should establish, that credit or other financial resources are not otherwise available to him on reasonable terms and conditions. If he is able to obtain commercial credit from a chartered bank, that is where he should go. If a large industry is able to meet its capital needs in the financial market, it is to the financial market that it should go. This institution is intended, and in its functions and scope it still intended, to fill what is otherwise a gap in the credit institutions of this country. It is not intended to duplicate the functions of the chartered bank in extending commercial credit for short period. It is not intended to duplicate or provide substitute credit facilities for those larger institutions which are in a position to raise money by bond or debenture issues on the market. This institution is intended principally to provide for those small and medium sized institutions, loans in any area and for a term not otherwise available." 2)

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1) House of Commons Debates, Volume 105, No. 146, 4th session, 24th Parliament, Page 7318.

2) Ibid., Vol. 105, No. 148, page 7446.

Minister of Finance, in the House of Commons on June [illegible] and July [illegible], [illegible]

"The third and last point which I should like to discuss, Mr. Chairman, concerns the scope of operations of the bank. This point has been mentioned and I do not wish to repeat what I said earlier. However, [illegible] whether there is any intention that the facilities of the bank should be available on terms which simply duplicate the credit facilities available through other institutions, for example, the chartered banks. Let me make it very clear that the industrial development bank [illegible] to duplicate existing facilities in this respect. That would not be a proper function of such an institution provided with government resources and government [illegible]. Indeed, the act [illegible] very clear on that point ....

It has been the policy of parliament, from the time this legislation was brought into existence [illegible] legislation [illegible] A[illegible] speaking, that the [illegible] and facilities should not duplicate those [illegible] by other institutions ... [illegible] shape, the [illegible] development bank was intended to be a lender in the secondary sense, providing credit particularly in the medium and longer term field not otherwise available to industries. The advantages offered by the act were particularly directed to the smaller [illegible] firms and businesses which are not in a position to go into the security market to meet their capital requirements, or [illegible] requirements on a scale not justifying access to the capital market. I think the situation is quite clear in that regard and has been [illegible] of [illegible] the [illegible] government [illegible] and the bill now before the committee makes no change in this regard. 1)

Mr. Fleming reaffirmed this [illegible] in the House on [illegible], 196[illegible]

"There is no thought, Mr. [illegible], [illegible] the bank [illegible] existing credit facilities ...
"An applicant who goes to the industrial development bank must establish, and it is proper that he should establish, that credit on other financing [illegible] terms [illegible] to him on reasonable terms and conditions. [illegible] obtain reasonable credit from a chartered bank, [illegible] should go. If a large industry [illegible] needs in the financial market, it [illegible] that it should go. This legislation [illegible] function and scope it will [illegible] a gap in the credit facilities of this country. [illegible] intended to duplicate the functions of the chartered banks [illegible] existing commercial credit [illegible]. It is not intended to [illegible] three [illegible] or [illegible] instruments. [illegible] available. 2)

1. [illegible] Debates, [illegible] Volume [illegible], 19[illegible]
2. [illegible] Debates, [illegible]

65. In recent years I.A.C. has experienced considerable competition from the I.D.B. We would like to describe this government-sponsored competition in some detail, as the I.D.B. is currently engaged in an intensive publicity program lauding the expansion of its activities. Following are the facts we offer for your consideration:

1. The I.D.B.'s sole competitive advantage over private lenders such as I.A.C. lies in the lower rate it charges. This is made possible by:

(a) I.D.B.'s ability to borrow money from the Bank of Canada at interest rates lower than those we pay in the capital markets. This is ironic since I.A.C. enjoys as high a credit rating as any Canadian-owned finance company. Viewed somewhat differently, we would say that I.D.B. as a private institution in search of funds, would have to pay substantially higher interest rates in the free capital market, and might not find them as readily available.

(b) The lack of necessity for earning a return on investment that would attract private funds.

(c) The tax-exempt status of I.D.B.

2. Since the step-up of I.D.B. activities, we have experienced the following "trade practices":

(a) Outright "payouts" of I.A.C. accounts. In these cases the I.D.B. steps in and pays out credit previously granted by I.A.C. Because of the universal desire of every credit user to pay a lower charge, the ability of I.D.B. to accomplish this is not hard to imagine.

(b) Willingness of I.D.B. to provide additional financing once private arrangements with a company such as I.A.C. have established the credit worthiness of the business and the apparent risk of a loan has thus been reduced.

66. We estimate that between the beginning of 1960 and June 1961, the I.D.B. paid-out $1.1 million in established I.A.C. accounts, and that another $1.3 million in additional business volume was lost as a result of (1) business approved by I.A.C., but obtained by the I.D.B. and

(2) business solicited by I.A.C. but obtained by the I.D.B. Since the middle of 1961, I.D.B. publicity and activity has increased even more, causing us to suffer substantial additional losses of business.

67. The key matter for interpretation in all I.D.B. actions hinges upon the question whether a borrower has obtained funds on reasonable terms and conditions. Irrespective of the rates being charged by I.A.C. under various plans for providing business credit, it seems to us that agreement on a particular transaction by a customer implies that the terms will enable him to make a reasonable profit on his business venture, after allowance for all costs, including charges by I.A.C. The full price of our service is clearly controlled by competition in the market, which is still the best way for determining any price. Taken in this context, the nature of I.D.B.'s competition with private financial institutions becomes extremely questionable. If it is the intent of the Government to subsidize certain types of business by means of a lower finance charge, this should be clearly stated. Notwithstanding the fact that all credit users at all times want funds at the lowest cost, it seems to us recent I.D.B. practices overstep the idea of reasonable terms and conditions and are beyond the scope envisaged in the original legislation creating the I.D.B. and subsequent amendments to that act.

68. The amount and diversity of private funds available in Canada since the creation of the Industrial Development Bank in 1944 has also changed drastically. I.A.C. alone today can be reached directly by Canadian business in 124 of our population centers where we operate 144 branches. We thus wonder whether the whole philosophy of a state-owned bank should not be re-examined in view of our present financial institutions and the supply of funds available through them. Whereas a vacuum for certain types of funds may have existed at the end of World War II, and possibly still exists today in isolated cases, we feel that this Royal Commission should address itself particularly to the question whether the I.D.B. in terms of its present setup and practices fulfills the purposes for which it has always been intended. On our own part, we have

[illegible] months of 1961, I.D.B. publicity and activity has increased even more, [illegible]

67. The key factor for [illegible] in all I.D.B. actions [illegible] upon the [illegible] terms and conditions. Irrespective of the rates being charged by I.A.C. under various plans for providing business credit, it seems to us that agreement on a particular transaction by a customer [illegible] [illegible] after allowance for all costs, the going charges by I.A.C. The full price of one service is closely controlled by competition in the market, which is still the best way for determining any price. Taken in this context, the nature of I.D.B. in competition with private financial institutions becomes extremely questionable. If it is the intent of the Government to subsidize certain types of business by means of a lower finance charge, this should be clearly stated. Notwithstanding the fact that the credit needs at all times want funds at the lowest cost, it seems to us recent I.D.B. practices overstep the idea of reasonable terms and conditions and are beyond the scope envisaged in the original legislation creating the I.D.B. and subsequent amendments to that act.

68. The amount and diversity of private funds available in Canada since the creation of the Industrial Development Bank in 1944 has also changed drastically. I.A.C. alone today can be reached directly by Canadian business in one of our population centers where we operate 235 branches. We thus wonder whether the whole philosophy of a development bank should not be re-examined in view of our present financial institutions and the supply of funds available through them. The need for certain types of funds may have existed at the end of World War II, and possibly still exists today in isolated cases, [illegible]

felt, as a private supplier of business and industrial funds, a great difficulty in competing with a government sponsored and a government-owned enterprise which, at times, is able to lend out funds at a rate which is close to what I.A.C. pays to obtain funds in the Canadian money market.

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market.

FINANCIAL ANALYSIS OF IAC [1)]

69. Table V-1 shows the condensed balance sheets of IAC at December 31, 1950 and December 31, 1961. In this 11 year period the total assets of the company have increased by $461.5 million, from $145.1 million to $606.6 million. The assets of a finance company can be divided into two categories: circulating assets (consisting of cash, marketable securities, and receivables) and other assets (consisting of fixed assets, etc.). The circulating sets make up the lion's share of the total (in the case of IAC, they amounted to 99.2% and 98.9% of all assets at each of these two dates), since fixed assets (office building and equipment, etc.) play a relatively minor role in the operation of a finance company.

70. The composition of the circulating assets has changed significantly. At the end of 1950, cash and marketable securities accounted for 3.3% of all assets, while net receivables (after deduction for a reserve for losses), amounted to 95.9% of the total. In the cash and marketable securities classification, each of the components accounted for approximately one half of the sub-total at the end of 1950. Eleven years later, cash and marketable securities accounted for 12.3% of all company assets; this drastic change was brought about entirely by a vast increase in the marketable securities held by the company. These amounted to $2.3 million a the end of 1950, and totalled $66.5 million at the end of 1961. The main reason for this large increase in the holdings of marketable securities is to be found in the decreasing dependence on bank credit lines as a source of reserve funds for IAC. At the beginning of this period, chartered bank credit lines provided a stand-by reservoir of funds for the operations of the company, but this reliance no longer holds today. As a result the company has had to find a highly liquid reserve of funds in the form of marketable securities, consisting largely of short term government securities and

1) All statistical tales for this section will be found in Appendix 2.

[illegible]

69. Table V-1 shows the condensed balance sheets of IAC at December 31, 1950 and December 31, 1961. In this 11 year period the total assets of the company have increased by [illegible] million, from $146.1 million to $605.6 million. The assets of a finance company can be divided into two categories: circulating assets (consisting of cash, marketable securities, and receivables) and other assets (consisting of fixed assets, etc.). The circulating assets make up the lion's share of the total (in the case of IAC, they amounted to 99.[illegible]% and 98.[illegible]% of all [illegible]), [illegible] fixed assets [illegible] and equipment, etc.) play a relatively minor role in the operation of a finance company.

70. The composition of the circulating assets was changed significantly. At the end of 1950, cash and marketable securities accounted for 3.3% of all assets, while net receivables (after deduction for a reserve for losses), amounted to 95.9% of the total. In the cash and marketable securities classification, each of the components accounted for approximately one half of the sub-total at the end of 1950. Eleven years later, cash and marketable securities accounted for 1[illegible].3% of all company assets; this drastic change was brought about entirely by a vast increase in the marketable securities held by the company. These amounted to $2.3 million a the end of 1950, and totalled $80.5 million at the end of 1961. The main reason for this large increase in the holdings of marketable securities is to be found in the decreasing dependence on bank credit lines as a source of reserve funds for IAC. At the beginning of this period, chartered bank credit lines provided a stand-by reservoir of funds for the operations of the company, but this reliance no longer holds today. As a result the company has had to find a highly liquid reserve of funds in the form of marketable securities, consisting largely of short term government securities and

1/ All statistical tables for this section will be found in Appendix [illegible].

other government bonds. These holdings now provide a reserve of funds used to provide a hedge against the vagaries of the short term money market, and as a source for financing increases in receivables.

71. IAC's receivables (accounts receivable after deduction for a reserve for losses) are the principal earning assets of the company. They amounted to $139.1 million at the end of 1950 and had increased to $525.4 million eleven years later. The composition of this total can be seen from details in Table V-1. The relative importance of direct secured instalment loans (made by our small loan subsidiary, Niagara Finance Company Limited), and other instalment paper (which consists of capital loans to automobile agencies and other capital loans), has increased while retail and wholesale receivables, (although they have increased in absolute amount), represent a relatively smaller share of our total assets today than they did eleven years ago.

72. At the end of 1950, total debt of IAC amounted to $113.1 million, or 77.9% of the total liabilities and equity. Preferred and common shareholders' equity totalled $14.7 million (10.1%) and the remaining liabilities of the company (accounts payable, income taxes payable, unearned service charges and dealers' credit balances) accounted for 12% of the total. By the end of 1961, total debt had increased to $427.9 million (70.5% of the total). Among various types of debt, the relative importance of debentures had risen sharply (from 6.9% to 13.3% of all liabilities plus equity), while the percentage accounted for by secured demand and short term notes had decreased. The relative importance of the other accounts payable and unearned service charges, increased from 12.0% to 13.6%. Total shareholders' equity increased from 10.1% to 15.9%, with common stock and retained earnings showing sharp gains, while the percentage accounted for by preferred stock declined from 3.5% to 2.9%. Total shareholders' equity increased from $14.7 million at the end of 1950 to $96.2 million at the end of 1961.

[illegible]

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73. A somewhat different view of the financial structure of the company can be found in the last two columns of Table V-1. Here all figures are expressed in terms of their relationship to the total shareholders' equity in the company. Thus, for every $100 of shareholders' equity in IAC at the end of 1950, assets totalled $988.86. This consisted of $980.91 of circulating assets and $7.95 of other assets. Eleven years later, the corresponding total assets figure had declined to $630.28; this total was made up of $623.17 in circulating assets and $7.11 of other assets. An idea of the total leverage of debt on equity in the company can be obtained from the liability side. Thus, for every $100 of equity at the end of 1950, the company had $770.63 worth of debt; by the end of 1961, this leverage had declined to $444.57 per $100 shareholders' equity. This brief summary of the balance sheet of the company suggests that the rapid overall absolute growth in the assets and in the volume of the business of IAC has been accompanied by sharply higher requirements of liquid assets and a gradual decline in the total leverage as expressed in the ratio of total debt to total shareholders' equity.

74. Table V-2 shows a detailed annual flow of funds for IAC, compiled from the balance sheets of the company for each of the years since 1950. Without going into a detailed discussion on a year-by-year basis, Table V-2 can be taken as a supplement to the beginning and end-of-period summary appearing in Table V-1. The results of Table V-2 are summarized in Table V-3 which shows the distribution of the sources of funds for IAC in this period and the application of funds. On the source side, total debt accounted for 68.2% of the $461.5 million total; total equity accounted for 17.7% (more than $81½ million); accounts payable and dealer credit balances provided 4.8% and unearned service charges the remaining 9.3%. Almost 84% of these funds were used to increase receivables, 15.1% went into cash and marketable securities, and the remaining 1.2% into other assets.

73. A somewhat different view of the financial structure of [illegible]
all figures are expressed in terms of their relationship to the total shareholders' equity in the company. Thus, for every $100 of shareholders' equity in IAC at the end of 1950, assets totalled [illegible]. This consisted of $980.81 of circulating assets and $7.95 of other assets. Eleven years later, the corresponding total assets figure had declined to $880.28; this total was made up of [illegible] in circulating assets and $7.11 of other assets. An idea of the total leverage of debt on equity in the company can be obtained from the liability side. Thus, for every $100 of equity at the end of 1950, the company had $770.63 worth of debt; by the end of 1961, this leverage had declined to $444.57 per $100 shareholders' equity. This brief summary of the balance sheet of the company suggests that the rapid overall absolute growth in the assets and in the volume of the business of IAC has been accompanied by sharply higher requirements of liquid assets and a gradual decline in the total leverage as expressed in the ratio of total debt to total shareholders' equity.

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75. Table V-4 summarizes the distribution between IAC total debt and shareholders' equity at the end of each of the last twelve years. At the end of 1950 there were $10 million in debentures outstanding and this amount increased to $80.9 million by the end of 1961. The equity and debenture base (Column 3) thus increased from $24.7 million at the end of 1950 to $177.1 million at the end of 1961. Senior debt (Column 6 which is the total of secured term notes shown in Column 4, and secured demand and short term notes shown in Column 5), increased from $103.1 million at the end of 1950 to $347.0 million at the end of 1961. The ratio of senior debt to equity and debentures under the period in review, has declined from slightly more than 4 in the years 1950 to 1952 to an average of 2.33 in the five year period, 1956 to 1960. At the end of 1961, this ratio had decreased to 1.96, reflecting the contraction in short term borrowing taking place as a result of a decrease in retail and wholesale receivables in the last business recession. A similarly low ratio can be found for the end of 1954 (1.89) when an even sharper contraction in the outstanding short term debt appears as a result of the 1953-1954 business recession. The third lowest ratio in Column 7 appears for 1958 (2.05), once again reflecting the consequences of the 1957-58 recession. Column 8 shows the total debt of the company, which has risen from $113.1 million at the end of 1950 to $427.9 million at the end of 1961. The total leverage of the company is shown in Column 9; at the end of 1950 the ratio of total debt to total shareholders' equity amounted to 7.71 while at the end of 1961, the corresponding ratio was 4.45.

76. Table V-5 shows some yardsticks designed to express the overall profitability of IAC. Gross income of the company has increased from $16.9 million in 1950 to $84.4 million in 1961; this includes all finance service charges (after allowance for bad debts and losses), interest on loans, insurance premiums earned, and income from investments, etc. In this time span, net earnings (before

all dividends, profit on redemption of securities, cost of debenture issues, etc.) have risen from $2.8 million in 1950 to $12.5 million in 1961. Net earnings as a percentage of gross income have averaged 16.1% in this twelve-year period; they have ranged from a low of 13.6% in 1951 to a high of 18.4% in 1955, and amounted to 15.9% in 1959, 15.0% in 1960 and 14.9% in 1961. The 14.9% ratio for 1961 is the lowest for any year in this period except in 1951. Expressed as a ratio to total shareholders' equity, net earnings have averaged 14.5% in this twelve year period, showing a generally declining ratio. Thus, the ratio was 18.1% as an average for the period 1950 to 1954; it declined to an average of 13.7% in the next five years, and amounted to 13.7% in 1960 and 13.0% in 1961.

77. Table V-6 shows the net earnings on total shareholders' equity of IAC as a percentage of the total assets and the earning assets of the company. The ratio of net earnings to assets has ranged from a high of 2.6% in 1954 to a low of 1.8% in 1951, showing very little overall change and averaging 2.1% in the period 1950-1961. As a ratio to receivables, net earnings averaged 2.3% in the same period. In 1961, the respective ratios were 2.1% and 2.4%.

78. Debt and Interest in the IAC Financial Structure

The essential feature in the capital structure of a finance company is the debt leverage that can be based on the shareholders' equity in the company. This is a vital factor for the finance company; without debt there would be no economic basis for its existence, since the net earnings of such a business based on shareholders' equity alone would be insufficient to attract potential investors. Thus, a relatively high ratio of debt to equity is a characteristic of the instalment finance and personal loan business; its counterpart in the chartered banking system is found in its higher ratio of deposit liabilities to shareholders' equity. The overall capital structure of IAC (Tables V-1 and V-4 above) shows that in the last eight years the ratio of total debt to total shareholders' equity has ranged between 4.8 and 5.2,

all dividends, profit on redemption of securities, cost of debenture issues, etc.) have risen from \$7.8 million in 1950 to \$12.5 million in 1961. Net earnings as a percentage of gross income have averaged 16.1% in this twelve-year period; they have ranged from a low of 13.6% in 1951 to a high of 18.4% in 1955, and amounted to 15.9% in 1959, 15.0% in 1960 and 14.9% in 1961. The 14.9% ratio for 1961 is the lowest for any year in this period except in 1951. Expressed as a ratio to total shareholders' equity, net earnings have averaged 14.5% in this twelve year period, showing a generally declining ratio. Thus, the ratio was 18.1% as an average for the period 1950 to 1954; it declined to an average of 13.7% in the next five years, and amounted to 12.7% in 1960 and 12.0% in 1961.

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The essential feature in the capital structure of a finance company is the debt leverage that can be based on the shareholders' equity in the company. This is a vital factor for the finance company; without debt there would be no economic basis for its existence, since the net earnings of such a business based on shareholders' equity alone would be insufficient to attract potential investors. Thus, a relatively high ratio of debt to equity is a characteristic of the instalment finance and personal loan business; its counterpart in the chartered banking system is found in its higher ratio of deposit liabilities to shareholders' equity. The overall capital structure of IAC (Tables V-1 and V-4 above) shows that in the last eight years the ratio of total debt to total shareholders' equity has ranged between 4.8 and 5.2,

except in 1954, 1958 and 1961 when the effects of business recessions were felt through a reduction in receivables and an accompanying contraction in short term debt. In this context it should be remembered that the cyclical behavior of consumer credit is of a lagging nature; this partly explains the low debt/equity ratios at the end of 1954, 1958 and 1961, since at each of these dates business expansion had been underway once again for several months.

79. IAC generally has a l erage ratio somewhat lower than corresponding independent sales finance companies in the United States. Today, a considerable portion of instalment sales credit in this country is extended by manufacturers' or distributors' captive finance companies. The parent organizations of these finance companies have a primary concern for producing or distributing goods and their finance companies exist for the principal purpose of aiding in the marketing of these goods. Their debt/equity ratio is often significantly higher because of the ability of the captive finance subsidiary to borrow funds on the greater strength of the parent company's operations. Integration through a factory-owned or distributor-owned sales finance company thus involves financial as well as competitive considerations for Canadian financial markets. The operations of such captive companies are conducted in an environment which is essentially insulated from the pressures of competition to which other, non-captive finance companies are subjected. It would seem to us that this Royal Commission might therefore address itself to a study of the impact of these captive finance companies on the Canadian financial system, because investors sometimes regard such credit as being in the manufacturing or merchandizing categories rather than that of finance.

80. Long Term and Medium Term Debt

(1) Debentures

Table V-7 shows the details pertaining to IAC's debenture financing, beginning with the first issue on April 1, 1950.

The total outstanding at February 15, 1962, after giving effect to the $10 million issue sold at that date, was $90.9 million. All but the first four and the June 1, 1956, issues have a 20 year maturity (the 5 exceptions have a 18 or 19 year maturity). All the issues were sold in Canada, and the upward trend of long term interest rates is quite evident.

81. (2) Secured Notes - Long Term

The details pertaining to IAC's long term secured note financing since 1950 are shown Table V-8. The 4 1/8% Series M, 4¼% Series R and 5½% Series S were sold in the United States for U. S. dollars. The total face value of these three issues amounted to $32 million (U.S.); the $5 million (U.S.) Series R issue was retired early in 1961. At the end of 1961, IAC's secured long term notes outstanding totalled $109.1 million. The upward pattern of long term interest rates is again apparent from Table V-8 even though the rates are not readily comparable because of varying maturities.

82. (3) Secured Notes - Medium Term

IAC today defines as medium term notes those secured notes which are authorized to be issued from time to time with maturities from one to ten years from the date of authorization; previously notes authorized with a maturity of seven years or less were included in this category. The conduct of the market for these notes resembles that for secured short term notes (maturing in 365 days or less): the company notifies investment dealers of the amount of such notes available in each maturity and the interest rate offered; if sufficient funds are obtained in a given maturity, IAC can withdraw further offers of such medium term notes. At the end of 1961, the amount outstanding in medium term secured notes amounted to $36.7 million, maturing as follows:

Year	Amount (ooo$)
1962	$10,005
1963	9,928
1964	2,141
1965	3,802
1966	3,529
1967	6,571
1968	561
1969	201

[illegible] outstanding at [illegible] [illegible] issue as ... $10 million issue sold at that date, was $90.9 million. All but the first four and the June 1, 1956, issues have a 20 year maturity (the 5 exceptions have a 18 or 19 year maturity). All the issues were sold in Canada, and the upward trend of long term interest rates is quite evident.

81. (2) Secured Notes - [illegible]

The details pertaining to IAC's long term secured note financing since 1950 are shown Table V-3. The 4 1/2% Series M, 4 3/4% Series N and [illegible] Series S were sold in the United States for U. S. dollars. The total face value of these three issues amounted to $35 million (U.S.); the $5 million (U.S.) Series R issue was retired early in 1961. At the end of 1961, IAC's secured long term notes outstanding totalled $179.1 million. The upward pattern of [illegible]
[illegible]

82. (3) Secured Notes - Medium Term

IAC today defines as medium term notes those secured notes which are authorized to be issued from time to time with maturities from one to ten years from the date of such issue; previously notes authorized with a maturity of seven years or less were included in this category. The conduct of the market for these notes resembles that for secured short term notes (maturing in 365 days or less): the company notifies investment dealers of the amount of such notes available in each maturity and the interest rate offered. If sufficient funds are obtained in a given maturity, IAC can withdraw further offers of such medium term notes. At the end of 1961, the amount outstanding in medium term secured notes amounted to $36.7 million, maturing as follows:

Amount (000)	Year
$10,003	[illegible]
8,328	[illegible]
[illegible]	[illegible]
2,[illegible]	[illegible]
[illegible]	[illegible]
6,[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]

83. The amounts outstanding fluctuate from time to time in accordance with the volumes of receivables purchased by IAC and other requirements of the company. IAC first used this method of selling medium term notes in September 1957; it provided a logical extension of the short term note market and was part of an overall search for new funds. It should be noted that the maturity provisions of Series F,G,H,J,K and R of the secured term notes (Table V-8) would have made them medium term debt in accordance with present definitions but since none of these issues now has any amounts outstanding, this distinction is not necessary. Since entering the medium term note market with an issue of $50,000 at 6.32% in September, 1957, IAC has had the following volume of these notes outstanding at each year end:

	000$	Average Interest Rate
1957	$ 5,540	6.38%
1958	12,979	5.75
1959	7,770	5.53
1960	31,241	6.05
1961	36,738	5.87

84. Short Term Debt

Short term debt falls into two major categories: (1) demand loans from the chartered banks and (2) secured short term notes with a maturity of 365 days or less. Instalment finance companies require a high proportion of such short term debt in their financial structure in order to have the flexibility of built-in expansion or contraction to meet the cyclical fluctuations of their finance business. Furthermore, there are definite seasonal fluctuations, particularly in wholesale papers, which must also be accomodated.

85. Demand Loans from Chartered Banks (For statistics see Table V-9)

Chartered bank loans have been a long standing source of short term borrowing by finance companies, but the dependence upon this source of funds has decreased in recent years. In the period under review general monetary and credit policy resulted in an imposition of restrictions on bank loans to instalment finance companies on several occasions. The first incident occurred in 1951 when, as

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	$000	Average Interest Rate
1957	$ 5,640	6.38%
1958	12,979	5.75
[illegible]	[illegible]	[illegible]
1960	31,241	6.05
1961	36,738	5.87

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consumer instalment credit controls were put into effect, the Canadian chartered banks were asked to restrict or restrain bank loans to instalment finance companies at a time when automobile shipments from manufacturers to dealers were at a then all-time high. To handle the resulting volume of heavy wholesale financing, IAC turned its attention to the sale of short term notes through investment dealers for the first time.

86. The second - and more famous - incident arose out of policies designed to hold down finance company borrowing from the chartered banks in the boom of 1955 - 1956. It has been accurately summarized as follows:

> "One field of short-term credit in which, after a rapid expansion, the banks have taken special steps to limit their volume of loans, is in relation to instalment finance companies. Chartered banks have not authorized any increases in lines of credit for instalment finance companies since November 1955. Owing to the gap between availments and authorized limits, actual amounts outstanding by way of bank loans in this category continued to increase in 1956. In November, following the failure of the companies concerned to agree on measures to limit the expansion of their lending, the banks took the further step of changing authorized credit limits for the larger companies so that no further increase would be permitted to bank loans to such companies beyond the maximum point reached up to that time, except on a purely temporary basis. This limitation on the availability of bank credit has not apparently affected the ability of the companies concerned to obtain funds from other sources." 1)

7. The characteristics of the sales finance business require that a company usually has sources of funds available quickly for retail and wholesale credit, or to meet maturities of securities which cannot immediately be refunded. The outstanding characteristic of the last decade has been a progressive development showing that reliance on bank credit lines to meet our varying requirements from day to day was no longer a satisfactory method of conducting business. Intermittent credit restrictions imposed by the chartered banks made it apparent that complete reliance on bank credit lines was no longer advisable. We have already given as illustrations the incidents occuring in 1951, which first prompted our entry into the short term note market, as well as the steps

1) Bank of Canada, Annual Report for 1956, page 9.

instalment finance companies at a time when automobile shipments from manufacturers to dealers were at a then all-time high. To handle the resulting volume of heavy wholesale financing, IAC turned its attention to the sale of short term notes through investment dealers for the first time.

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taken in 1955 and 1956. A third experience of IAC in connection with the chartered banks occurred in 1958 and 1959, when the Canadian economy was in a mild cyclical upswing, not at all characterized by the excesses of earlier periods. This subjected us to a new experience. Bank credit lines were cut by 15% in 1957 and, in the last half of 1958 it became apparent to us that additional cuts in bank credit lines would be a possibility. Furthermore, with the margin of safety reduced by the impairment of bank credit lines, it became obvious that some part of our equity capital would have to be set aside in investments which would be available to meet emergencies.

88. On May 14, 1959, the company's bank credit lines were cut again; this time from $117.8 million to $79.8 million. On August 20th, there was a further cut to $60.4 million and it was intimated that if the bank borrowings of the company dropped below that figure, it could not be assumed that these credit lines would be maintained. These two reductions reduced the pool of funds available to us by over $57 million.

89. Once again, as in 1951, the company was faced with a situation requiring the development of new methods to provide sources of emergency funds. This time the method adopted was to invest substantial amounts of the company's capital in securities having relatively early maturities. If a sudden shortage of funds should occur, these securities could then be liquidated to provide the necessary funds. As Table V-2 shows transactions in marketable securities between 1951 through 1957 were generally moderate, leading to a gradual accumulation of such short term investments. However, in 1958 IAC added more than $14½ million to its investment portfolio; this was followed by an addition of more than $40 million in 1959 and a further build-up of more than $8 million in 1960. Thus in this three year period we added more than $63 million to our investment portfolio. The types of investment chosen were primarily government of Canada securities and trust company certificates, with a small amount of provincial government securities.

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90. The rapid expansion of many Chartered Banks in the consumer credit field raises several points which we believe warrant the attention of this Commission:

1) Since the Chartered Banks are now generally both lenders to and competitors of the finance companies, it becomes an important matter how future either/or internal lending decisions will be made by the banks. In 1959 our chartered bank credit lines were substantially reduced, even as some of these institutions were sharply expanding their operations in the consumer credit field.

2) Faced with the statutory limitation of a 6% interest rate which is far from sufficient to cover the cost of handling consumer instalment loans, some of the Chartered Banks have been forced to adopt various devices to recoup the expenses they incur in handling such loans, while still appearing to remain within the statutory requirements of the Bank Act as to the limitation on interest rates to be charged.

3) On several occasions, uniform action was taken by all Chartered Banks to restrict the amount of bank loans available to companies grouped in a single category as "finance companies" (though captive companies were not always so treated). Also, between June and October 1961 inclusive, the interest rate charged to IAC was 1/4 of 1% above the prime rate charged to other borrowers. This increase above the prime rate could have had no relation to the credit risk involved.

4) So long as most of the Chartered Banks continue actively in the field of direct consumer loans, should they be used at the same time (either directly or indirectly) as the agency for imposing monetary and credit restrictions on their competitors in the same field?

5) Since the Chartered Banks formalized and aggressively advertised their consumer lending plans, we have experienced through our dealers a demand from the public for lower down payments and longer terms to match plans being offered by the Chartered Banks. As it is characteristic of loan credit to have no down payment,

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pressure has developed on merchants to lower their required down payments. In the sales finance field, the soundness of credit extended depends heavily on an adequate down payment and a maintenance of terms which preserve the equity of the purchaser over the term of the contract. For this reason, we have watched with growing concern the rising demand for 36-month paper and lower down payments, which has been strongly influenced by Chartered Bank competition.

6) Because of the increasing importance of consumer credit (in absolute amounts and as a percentage) in Chartered Bank loan portfolios consisting of receivables with a maturity up to 3 years, a question arises both as to the liquidity and the availability of Chartered Bank funds to service business and industry customers.

91. Short Term Notes

As mentioned previously, IAC entered the short term money market with secured notes having a maturity of 365 days or less for the first time in 1951, and since that time the company's activities and participation in this market has been greatly increased. Rate cards are established at frequent intervals showing the interest rate IAC is prepared to pay for funds with the following maturities: usually 30 to 59 days, 60 to 89 days, 90 to 179 days, 180 to 269 days

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VI. [illegible]

As mentioned previously, IAC entered the short term money market with secured notes having a maturity of 365 days or less f[illegible] the first time in 1951, and since that time the company's activities and participation in this market has been greatly increased. Rate cards are established at frequent intervals showing the interest rate IAC is prepared to pay for funds with the following maturities: usually 30 to 59 days, 60 to 89 days, 90 to 179 days, 180 to 239 days

and 270 to 365 days. The notes are fully registered and are sold in minimum amounts of $5,000.

92. Table V-10 shows the interest rate offered by IAC on 3 months and 6 months short term notes (as well as a comparison of the average yield at tender of treasury bills having a similar maturity) at mid-year and year-end since 1951. The amount of outstanding IAC notes and average weighted interest rates at year-end are shown in Table V-11. The year-end summary figures conceal the degree of built-in flexibility in contracting and expanding this source of funds depending upon the need for financing receivables. Similarly, there is a quick response to changing money market conditions in average interest costs; thus, for example, the average interest rate on our outstanding short term notes increased from 3.65% in January 1959 to 5.45% at mid-year and 6.03% at the end of that year. Table V-12 shows the volume of short term notes and the number of notes sold by IAC in the period 1951-1961. The volume and balances outstanding of secured short term notes in U. S. funds is summarized in Table V-13.

93. It might be of interest to note that the 1951 decision of IAC to issue short term secured notes marked the beginning of the short term finance company note market in Canada. The development of this market has been described as follows:

> "Partly as a by-product of the development of the treasury bill market but also as a result of the increased demand for consumer credit and the emulation of techniques employed in other capital markets, the American in particular, the market in the short-term notes of finance companies has also been developed to some degree in Canada. There is not yet much trading in outstanding issues of these companies, but they have been sold rather widely. While during the cultivation of this market by the finance companies, the monetary authorities may have been caused some temporary embarrassment in their efforts to restrain increases in credit, the development must be viewed in general as contributing to the greater flexibility and improved functioning of the capital market."[1]

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1) Hood, op. cit., pp. 438-439

and 270 to 365 days. The notes are fully registered and are sold in minimum amounts of $5,000.

89. Table V-11 shows the interest rate offered by IAC on [illegible] [illegible]. [illegible] the average yield at tender of treasury bills having a similar maturity) at end of each and year-end since 1951. The amount of notes outstanding, IAC notes and average weighted interest rates at year-end are shown in Table V-11. The year-end interest figures reflect the degree of [illegible] flexibility in [illegible] and appealing rate structure of IAC depending upon the need for [illegible] resources. Similarly, there is a quick response to changing money market conditions in average interest rates; thus, for example, the average interest rate on new [illegible] short term notes increased from 3.00% in January 1959 to 5.4% at mid-year and 5.65% at the end of that year. Table V-12 shows the [illegible] short term notes and the number of notes sold by IAC in the period 1951-1961. The volume and balances outstanding of short term notes [illegible] is summarized in Table V-10.

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> "Partly as a by-product of the development of the treasury bill market and also as a result of the increased demand for consumer credit and the application of techniques employed in other countries, notably, the [illegible] in public [illegible], the market in the short-term notes of finance companies has also been developed to some degree in Canada. There is not too much trading in outstanding issues of these companies, but they have been [illegible]. While [illegible] the [illegible] of this market by the finance companies, the [illegible] may have [illegible] in the [illegible] to [illegible] in [illegible], the [illegible] general [illegible] and [illegible] of an [illegible]." 1/

1/ Ibid., p. [illegible]

94. Average interest rates on IAC debt and total interest costs.

Tables V-7 and V-8 have already shown the interest rates paid by IAC on new long term issues since 1950; the interest rates paid on bank demand loans are summarized in Table V-9, while and idea of interest rates on short term notes can be obtained from Table V-10 and V-11.

95. A picture of the average cost of money in the IAC debt structure can be obtained from the summary in Table V-14. This table shows the average interest rate on each part of the IAC debt at year-end in the period 1951 to 1961. It is in effect a year-end view of the average cost of money in the IAC debt structure.

96. The importance of interest costs in the IAC cost structure can be seen from the data in Table V-15 showing the relationship between IAC's gross income from financing operations and total interest payments on money borrowed by the company. Between 1950 and 1954 interest paid by IAC averaged 27.7% of the gross income from financing operations; in the next five year period the average was 31.1%; in 1960 it was 35.5%, and in 1961 the ratio amounted to 31.9%. For the entire period under review the ratio works out to 31.0%.

97. Debt Policy

In arriving at a desirable overall mix between debt and equity, as well as a sound distribution between various types of debt, the company has to consider the following trust indenture requirements:

1) The aggregate principal amount of outstanding secured notes of the company (short, medium and long term) is limited to 3½ times the working funds of the company. The term "working funds" means the excess of current assets over current liabilities (excluding in the latter dealers' credit balances, but including all secured notes).

2) The senior debt of the company is secured by deposits in pledge of receivables in the value of at least 112½% of the

[illegible]

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[illegible]

In arriving at a desirable overall mix between debt and equity, as well as a sound distribution between various types of debt, the company has to consider the following trust indenture requirements:

1) The aggregate principal amount of outstanding secured [illegible]

aggregate principal amount of all outstanding secured notes.

3) Each dollar of total shareholders' equity can support one dollar of debenture debt. At the end of 1961, there would have been room for an additional issue of about $15 million of debentures; this reflects the spread between slightly more than $96 million worth of total shareholders' equity as against outstanding debenture issues of almost $81 million.

98. Also as a general yardstick, total secured debt (short term notes +bank loans +secured medium term and long term notes) can only be a certain multiple of the credit base (total shareholders' equity + debentures). Here there are no iron-clad rules; a ratio of $3\frac{1}{2}$ today is probably considered quite conservative. In the case of IAC, this ratio has declined appreciably from the level of the early Fifties; it ranged between 2.05 and 2.70 in the period 1956-1960, and was only 1.96 at the end of 1961. Viewed in these terms, IAC could presently support a sizeable expansion in senior debt, as a result of the sharp build-up in total shareholders' equity and outstanding debentures.

99. Up to about 1951, IAC's sources of funds were well defined and relatively uncomplicated. We have already noted at the end of 1950 the company's total shareholders' equity amounted to approximately $\$14\frac{1}{2}$ million; it had $10 million issued debentures, $50 million in long term secured notes outstanding, and its entire short term debt consisted of demand notes with the chartered banks. The larger and more complicated capital structure of the company in later years has already been described.

100. In the last decade there has been a gradual development of a general company philosophy which can be summarized as consisting of taking as a source of funds some piece of each capital market. On the equity side, this has meant substantial increases in the preferred stock outstanding (more than $\$12\frac{1}{2}$ million between the end of 1950 and 1961), an almost $25 million increase in common stock outstanding, and a build-up of more than $42 million in retained earnings (accomplished through a conservative dividend

amount of all outstanding secured [illegible].

3) Each dollar of total shareholders' equity can support one dollar of debenture debt. At the end of 1961, there would have been room for an additional issue of [illegible] million of debentures; this reflects the spread between slightly more than $95 million worth of total shareholders' equity as against outstanding debenture issues of almost $81 million.

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[illegible] outstanding, and a [illegible] of more than $[illegible] million in [illegible] a [illegible] dividend

short term money market in 1951, and this was followed some years later by a logical extension into the medium term market. In addition there have been substantial increases in outstanding debentures and secured long term debt. Thus total outstanding debt increased by almost $315 million between the end of 1950 and the end of 1961.

101. Table V-16 summarizes IAC's liquidity position by means of ratios of liquid assets plus receivables to demand loans plus secured and unsecured debt. Maturities (of receivables and debt) of 6 months or less, and 1 year or less are shown at the end of each of the last five years. On the basis of this yardstick, IAC's 6 month liquidity ratio has ranged between 1.33 and 1.67. The corresponding 1 year ratio has ranged between 1.67 and 1.98.

102. In concluding this section, we would like to emphasize that this high degree of liquidity in our financial structure, and the nature of our major lines of business gives us a very logical position among the institutions operating in Canadian financial markets. Our industry - with its mixture of equity and short, medium and long term debt - appears to be the logical vehicle for supplying consumer credit and medium term commercial financing. As such it stands about halfway between those financial institutions which essentially employ (1) short-term and deposit funds available primarily for short term lending, and (2) very long term funds available for investment into mortgages and other long term investments.

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SECTION VI

SOME SOCIAL ASPECTS OF CONSUMER CREDIT [1)]

103. We now turn to a discussion of some social aspects of consumer credit, particularly in the segments of the consumer credit market in which I.A.C. operates, in order to examine certain popular misconceptions. This can be viewed as an attempt to find out whether there are any socially adverse implications in the existence of consumer debt which demand control because of welfare or moral considerations. This is quite apart from any objective of moderating swings in the business cycle caused by the instability of demand for consumer durable goods.

104. In this connection, we will examine the following issues:

1. Contentions that sales finance companies have followed a policy of progressive liberalization of terms, leading to a deterioration in the quality of their paper. These will be dealt with in terms of the average payout period on the retail paper we purchase, the record of our delinquencies, and finally, the amount of losses we suffer because of non-payment of our outstanding receivables.
2. The question of the overall burden of consumer debt in the economy.
3. A comment on the abuses of consumer credit.

105. The need for maintaining a sound portfolio of receivables is a fundamental principle of our business, subject to no exceptions. In our company we apply a strict principle requiring that all instalment paper we purchase has a sound equity. By equity we mean that the purchaser of the durable good has a sound investment in the transaction and that secondly, the investment we are making in a transaction is always sufficiently below the true value of the article that it can be sold at any time without a loss. This is a first principle in the instalment sales finance business which no sales finance company can ignore without inviting disaster.

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1) All statistical tables for this section will be found in Appendix 3.

SECTION VI

[illegible]

103. We now turn to a discussion of some social aspects of consumer credit, particularly in the segments of the consumer credit market in which L.A.L. operates, in order [illegible]. This can be viewed as an attempt to find out whether there are any socially adverse implications in the existence of consumer debt which demand control because of welfare or moral considerations. This is quite apart from any objective of moderating swings in the business cycle caused by the instability of demand for consumer durable goods.

104. In this connection, we will examine the following issues:

1. Contentions that sales finance companies have followed a policy of progressive liberalization of terms, leading to a deterioration in the quality of their paper. These will be dealt with in terms of the average payout period on the retail paper we purchase, the record of our delinquencies, and finally, the amount of losses we suffer because of non-payment of our outstanding receivables.
2. The question of the overall burden of consumer debt in the economy.
3. A comment on the abuses of consumer credit.

105. The need for maintaining a sound portfolio of receivables is a fundamental principle of our business, subject to no exceptions. In our company we apply a strict principle requiring that all instalment paper we purchase has a sound equity. By equity we mean that the purchaser of the durable good has a sound investment in the transaction and that secondly, the investment we are making in a transaction is always sufficiently below the true value of the article that it can be sold at any time without a loss. This is a first principle in the instalment sales finance business which no sales finance company can ignore without inviting disaster.

1) All statistical tables for this section will be found in Appendix 3.

106. Average payout terms in consumer credit have lengthened in the period under review. The I.A.C. averages shown are somewhat lower that the average repayment terms on retail paper compiled by the Dominion Bureau of Statistics since 1958. Thus, for instance, the sales finance companies' average as published by DBS on new passenger cars and commercial vehicles was 25.9 months in 1960 compared to an I.A.C. average of 25.1 months. In looking at these average repayment terms it should be remembered that the average price of consumer durable goods has risen appreciably in this period. This has been accompanied by an increase in the average amount financed on an instalment purchase which allows the vendor to lengthen maturities without violating the principle that the purchaser of the good must at all times have a net positive equity in the good he has acquired. However, this principle does impose a definite limit on repayment terms, beyond which no sound credit grantor can go.

107. The next criterion for examining the soundness of our receivables relates to the pattern of account and dollar delinquency ratios for the period under review. For this purpose, we are using delinquency definitions of accounts in arrears 30 days or longer; such figures are now not publicly available in Canada, and many of the comparable statistics in the United States are based on a 60-day delinquency definition which does not make them comparable with our data. Similarly a 60-day definition involves an understatement of delinquencies compared to the 30-day criterion which we are using. Table VI - 2 shows the percentage of all accounts delinquent 30 days or more for I.A.C. receivables; this includes retail sales financing only. As the data in Table VI - 2 show, this monthly ratio averages more than 4% throughout the years 1950-1954; in 1955, it declined to 3.6%, it averaged 3.0% and 3.1% in the next two years and 2.9% in 1958. The record for 1957 and 1958 is interesting; the delinquency ratios in those two years are among the lowest in the 12 years under review, even when, for part of this period, the economy was in a recession, and when doubt had been expressed over credit quality of the instalment paper created in the 1955-56 boom because of a lengthening of average payout terms. Our insistence on sound quality paper

[illegible] ... [illegible] average repayment terms on retail paper compiled by the Dominion Bureau of [illegible] ... [illegible] average as published by DBS on new passenger cars and commercial vehicles was 25.9 months in 1960 compared to an I.A.C. average of 25.1 months. In looking at these average repayment terms it should be remembered that the average price of consumer durable goods has risen appreciably in this period. This has been accompanied by an increase in the average amount financed on an instalment purchase which allows the vendor to lengthen maturities without violating the principle that the purchaser of the good must at all times have a net positive equity in the good he has acquired. However, this principle does impose a definite limit on repayment terms, beyond which no sound credit granter can go.

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through the 1955-1956 boom is reflected in these ratios. During the last 3 years, the monthly percentage of delinquent accounts average 3.6% in 1959, 3.2% in 1960 and 4.1% in 1961. While this is higher than the results achieved in 1957 and 1958, it still represents a decline over the typical ratios of the early 1950's.

108. Table VI - 3 shows the dollar amounts of accounts delinquent 30 days or more as a ratio of all receivables. This ratio has exceeded 1½% in only a single year in the period under review; this came in 1954 when the ratio was 1.62%. Generally speaking, a pattern similar to Table VI - 2 appears; typically, the dollar delinquency ratio was higher at the beginning of the Fifties than in recent years. The best records were achieved in 1956, 1957 and 1958 when the ratio was under 1% for 3 consecutive years. The lower level of dollar delinquencies (compared to account delinquencies) is explained by the fact that only the past due amounts of a given account are included in the dollar delinquency ratio. At I.A.C., we regard delinquency as a matter of exception rather than common occurence. Our entire credit selection process and our insistence on an equity of the borrower in the good that he purchases at all times are directed to this end.

109. Table VI - 4 shows the percentage of accounts delinquent 30 days or more of Niagara Finance Company. Data have been compiled monthly since May 1952. In comparison to ratios for I.A.C. instalment finance accounts, there is a similarity in the Niagara Finance experience in that typical delinquency ratios in the early Fifties were somewhat higher than those prevailing recently. The lowest ratio for any one year appears for 1956 when the monthly average account delinquency ratio was 2.4%. Since that time, there have been small increases in this ratio; it amounted to 3.1% in 1960 and 3.3% in 1961. Also it is interesting to observe (in comparison with Table VI - 2) that the personal instalment loan delinquency ratios are somewhat smaller than those appearing for I.A.C.'s instalment sales financing activities.

110. <u>Losses</u>

I.A.C. losses are divided into two classes:

through the 1950-1956 boom is reflected in these ratios. During the last 3 years, [illegible] 2.2% in 1960 and 2.1% in 1961. While this is higher than the ratios achieved [illegible]

106. Table VI - 2 shows the dollar amounts of accounts delinquent [illegible] appears, typically, the dollar delinquency ratio was higher at the beginning of the Fifties than in recent years. The best records were achieved in 1956, 1957 and 1958 when the ratio was under 1% for [illegible] consecutive years. The lower level of dollar delinquencies (compared to account delinquencies) is explained by the fact that only the past due amounts of a given account are included in the dollar delinquency ratio. [illegible] a matter of exception rather than [illegible] collection process and our insistence [illegible] the borrower in the [illegible] what he purchases at all times [illegible].

107. Table VI - 3 shows the percentage of accounts delinquent 90 days or more of Niagara Finance Company. Data have been compiled monthly since May 1952. In comparison to ratios for [illegible] there is a similarity in the Niagara Finance experience in that the delinquency ratios in the early 50's were somewhat higher than those prevailing recently. The lowest ratio in any one year appears for 1958 when the monthly average account delinquency was 2.4%. Since that time, there have been small increases in the ratio [illegible] in 1960 and 2.7% in 1961. [illegible] finance activities.

IV. [illegible]

1) Bad debts or credit losses.

2) Other write-offs or dealer protection losses.

Bad debts involves losses on accounts on which there is no dealer endorsement or when the dealer is out of business at time of loss. These losses include all losses on wholesale receivables plus losses on retail receivables as defined above. No accurate statistics are available on the division between retail and wholesale losses. However, it is estimated that credit losses are divided about 50-50 between retail and wholesale. Dealer protection, as the name implies, warrants our collection performance and protects the dealer against recourse to his endorsements under certain circumstances.

111. I.A.C.'s total net losses over the past ten years have averaged only 0.26% on repayments of over $6 billion of retail and wholesale receivables. The range has been from a high of 0.52% in 1955 to a low of 0.16% in 1953. In the year 1961 the ratio was 0.24%.

112. Our general experience in the field of delinquencies, and the shouldering of final losses have been entirely satisfactory from a business viewpoint. The ratios expressing this record point to the fact that our credit selection system is sound, and that the repayment obligations which they impose on our customers have been such as to make either temporary or permanent defaulting the exception rather than the rule. Some 75% of I.A.C.'s accounts are paid promptly and without further notice. The remaining 25% require a reminder notice. About half of these accounts pay on receipt of the reminder, and to collect the remaining accounts, we have well-organized accounting departments and systems, with personnel especially trained to handle slow accounts with tact, understanding and decision.

113. Is Consumer Credit a Burden?

Any discussion of the burden of consumer debt must proceed from two different approaches:

1) The validity of aggregate concepts such as the ratio of consumer debt outstanding to personal disposable income, and
2) The position of individuals or groups of individuals with a common characteristic such as a given range of income.

[illegible]

all losses in wholesale receivables plus losses on retail receivables as defined above. No accurate statistics are available on the division between retail and wholesale losses. However, it is estimated that credit losses are divided about 50-50 between retail and wholesale. Dealer protection, as the name implies, warrants our collection performance and protects the dealer against recourse on his endorsements under certain circumstances.

11. G.A.C.'s total net losses over the past ten years have averaged only 0.20% on repayments of over $4 billion of retail and wholesale receivables. The range has been from a high of 0.[illegible]% in 1950 to a low of 0.[illegible]% in 19[illegible]. In the year 19[illegible] the ratio was 0.[illegible]%.

12. Our general experience in the field of delinquencies and the abandonment of local losses have been [illegible] satisfactory [illegible] viewpoint. The entire experience record [illegible] to the fact that our credit selection system is sound, and that the majority of difficulties which they impose on our customers have been such as to make either temporary or permanent defaulting the exception rather than the rule. Some [illegible]% of G.A.C.'s accounts are paid promptly and without further notice. The remaining 25% require a reminder notice. About half of these accounts pay on receipt of the reminder, and to collect the remaining accounts, we have well-organized [illegible] with [illegible]

[illegible]

13. [illegible]

[illegible]

from two different approaches:

1. The [illegible] [illegible] [illegible]
   [illegible] to separate [illegible], and

2) The position of individuals or groups of individuals with [illegible]
   [illegible] such as [illegible].

114. In general, it is difficult to form any objective conclusions as to what burdens a particular level of consumer debt imposes on the economy in general. On this subject, the background study for the Royal Commission on Canada's Economic Prospects made the following comment:

> "Considerable interest is often shown in the ratio of consumer debt outstanding to personal disposal income. Such a ratio is indicative of little else than the relative rates of growth of the two aggregates. One cannot draw any conclusions as to whether the level of consumer debt is 'too high' (in some sense) to disposable income without consideration of the concentration of consumer debt and other consumer assets and obligations by income classes. One might for example draw one conclusion if the increase in debt has been incurred in one group of income classes while the increase in income was enjoyed by another group of income classes and another conclusion if those who enjoyed increased incomes also added to their consumer debt." 1)

115. With these limitations in mind, we would like to examine several yardsticks expressing the ratio of consumer debt to disposable income. This is usually done by expressing one or the other measure of consumer debt outstanding at the end of a particular year as a percentage of personal disposable income (personal income after income taxes). This procedure overstates the relative importance of consumer debt as long as income is rising, since the debt outstanding at the end of a year will be repaid out of the following year's income. Table VI - 5 and VI - 6 summarize this position and suggest three possible yardsticks. Table VI - 5 shows the ratio of consumer instalment credit as a percentage of disposable personal income in the same year, as the ratio of the next year's income, and finally the ratio of two-thirds of the next and one-third of the following year's incomes. For the period under review, when there was no decline in disposable personal income in any one year, this has the effect of lowering the ratio of instalment credit to disposable personal income as successive years' incomes are taken into consideration. The idea of 2/3 - 1/3 distribution is based approximately on the distribution of I.A.C. receivables at the end of 1959 and 1960, and thus generally reflects the time distribution in repayments of our instalment sales receivables. A similar pattern appears in Table VI - 6 where total consumer debt is expressed as a percentage of disposable personal income. Since this

1) Hood, op.cit., pages 134-135.

[illegible]

[illegible] in general. On this subject, the background study for the Royal Commission on Canada's Economic Prospects made the following comment:

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[1] [illegible]

includes single payment credit in accordance with the definitions outlined in Section I, the resulting ratio to disposable income is higher than shown in Table VI - 5.

116. The principle we are seeking to illustrate is that there are many ways of showing the importance of one or more segments of consumer credit in relation to a given income yardstick. All of these point to a similar upward trend, but the actual percentage will vary according to what income yardstick is used as a relevant figure. The results in Table VI - 5 and Table VI - 6 show that instalment credit and total consumer credit as a percentage of personal disposable income increased relatively rapidly until the middle Fifties. In 1957, there was a small decline in the ratio, followed by an increase in 1958 which, in the case of total consumer debt, did not bring the ratio back to the level of 1956. In 1959 and 1960, the ratios of debt to income were once again on the increase and in round terms amounted to approximately 16%-17% on the basis of total consumer credit and 12%-13% on the basis of consumer instalment credit.

117. If there are welfare problems involved in the existence of consumer debt, they are impossible to find in aggregate figures. Any debate in this area can simply be summarized by asking: how high is "high"? In a dynamic economy, there are always large groups of people who anticipate with confidence increases in their income and are, therefore, inclined to seek to improve their standard of living in accordance with these anticipations. It has been said: "There is no other group which goes into debt as frequently as those who anticipate income increases." 1)
And, as long as income rises year after year, it will be difficult to argue that consumer debt is "too high". The test of such a contention would probably face us only in the event of a severe recession or depression. What has always concerned us is the statistical evidence that individual spending units may definitely be overburdened with consumer debt. Here the available statistics in Canada are somewhat scarcer; the last detailed Dominion Bureau

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1) National Industrial Conference Board, "The Economics of Consumer Debt," Study in Business Economics No. 50, 1955, page 46 (Remarks by George Katona).

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[1] National Industrial Conference Board, "The Economics of Consumer Debt - Study in Business Economics No. 50, 1955, page 45 (Remarks by George Kennedy)

of Statistics' study dates back to consumer indebtedness in March 1956, and it is related to incomes in 1955. This survey has been discussed in detail elsewhere and the data involved are substantially out of date by now.

118. However, as the figures in Table VI - 7 show, it gives us an idea of the importance of consumer debt (1) among various income groups, and (2) among the debtors in various income groups. The latter distinction is important as far as burden statistics are concerned; in any aggregate there are large numbers of debtors who should really not be included. The relative importance of debtors in each income group is seen from the first column in Table VI - 7. The percentage of each income group having some consumer debt generally rises with income until it reaches a maximum in the $5,000 to $7,000 income bracket, where almost 60% of the group had some consumer debt. In the entire $3,000 to $10,000 income range, the percentage of debtors is relatively stable, ranging only from 58% to 60%. The ratio in the under $1,000 per year income group is perhaps significant; it suggests that one out of six of the income recipients in this range had some consumer debt. However, this low income bracket must be handled with care; we do not know for what reason or how permanently people are in it. Column 2 shows the average debt in terms of the entire income group, but the more important figures appear in Column 3 showing average debt for the debtors only. This emphasizes the obvious fact that the burden on the debtors is considerably higher than the same burden pro-rated over an entire income group, which includes non-debtors. Column 4 shows that if the entire income group is included, the percentage of consumer debt to income amounted to 8.3% in the $1,000 and under group, 7.2% in the $1,000-$1,999 bracket, 8.5% in the $2,000-$2,999 bracket, and 8.7% in the $3,000-$3,999 bracket. The ratio then declines until it reaches 6.1% in the $7,000-$9,999 income group. Finally, in the $10,000 and over income group (where average consumer debt rises sharply), the ratio rises to 8.5%. More relevant figures appear in Column 5 which apply to debtors only.[1] In the $1,000 and under bracket, the ratio of

[1] It is assumed here that in each income bracket, the average income of units with consumer debt was the same as that of units without consumer debt.

consumer debt to 1955 income was 48.1%; it declined to 21.8% and 17.5% in the next two income brackets. This decline continued throughout the income distribution range until the ratio reached 10.4% in the $7,000-$9,999 group; however, in the $10,000 and over group, it rose to 18.5%.

119. Since income and consumer debt represent only two of the three major considerations in looking at possible burdens, liquid assets held by the debtors in each of the income groups must also be considered. 1) This is seen from Table VI - 8 which shows to what extent consumer debt was matched by liquid assets in each of the income groups. Focusing attention again on the lower income brackets, it appears that among the approximately 17% of the spending units in the $1,000 and under income group, which had consumer debts, 10.5% had no liquid assets at all, about 3½% had consumer debts exceeding liquid assets and 3% of the spending units had liquid assets exceeding their consumer debt. Similarly in the $1,000-$1,999 income group, where 32.7% of the units had some consumer debt, almost 21% of the units had no liquid assets at all; about 5% had liquid assets totalling less than their consumer debt and the remaining 7% had liquid assets exceeding their consumer debt.

120. By whatever yardstick one wishes to judge these figures, it must be concluded that on the basis of the DBS survey, some burden considerations may arise in viewing consumer debt in the very low income groups. Admittedly, the whole question of consumer debt in the very low income brackets must be handled very carefully; a major limiting factor is that we do not know how permanently a given family stays in a given low income bracket. Consequently, an analysis made at one point in time (such as the DBS study, which has not been updated) is really insufficient. Furthermore, even if such a survey would be taken at regular intervals, any trend in consumer debt in the low income brackets would still not be conclusive since it cannot be assumed that the same families would still be included in these low income brackets. The pattern in a dynamic economy would probably be entirely opposite. Another limitation in the burden concept of consumer debt relates to the fact that instalment sales credit in particular (or con-

1) Other variables include the number of dependents, etc.

sumer credit of any other type used for the purchase of durable goods) creates a debt which is accompanied by the acquisition of a worthwhile durable asset with a useful life exceeding the duration of the debt. Its use may eliminate certain other types of consumer expenditures and, as such, the instalment buying process can be viewed often as a replacement of other forms of expenses. For example, instalment payments due on a combination washer-and-dryer partly replace laundry bills; payments on a refrigerator replace what used to be paid to the iceman or lost in food spoilage; the cost of a television set is an offset to what could be spent on movies or other forms of entertainment; and purchase of an automobile can replace expenditures on business or pleasure transportation.

121. Furthermore, while the act of instalment buying draws on the savings of others, the act of repayment restores these savings, and imposes a type of "forced savings" on the instalment purchaser. It is conceivable that in the absence of such an instalment program, individual consumers would simply spend this part of their income for other consumption purposes. Here it should be remembered that even though the national economic accounts treat consumer durable goods spending as current consumption rather than investment, the balance sheet of the individual consumer will show an asset consisting of the depreciated durable good at the end of the instalment payments.

122. <u>I.A.C. and N.F.C. Customer Characteristics</u>

Industrial Acceptance Corporation and Niagara Finance Company have conducted sample surveys of customer characteristics on several occasions; I.A.C. has done this in 1956 and 1961, while the Niagara Finance survey was prepared especially for submission to this Royal Commission.

123. The I.A.C. surveys cover approximately 2,000 instalment contracts purchased in each of the years. Table VI - 9 summarizes the income characteristics of these customers showing that approximately 12% of the customers in this sample had incomes of $2,400 or less per year in each of the two surveys. The next income bracket ($2,401 - $3,600 per year) included 44.2% of all customers in the 1956 survey, and 30.7% of all customers in the

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1961. Income earners in the $3,601 - $4,800 per year bracket accounted for 26.6% and 34.6% of all customers respectively, and those in the $4,801 - $6,000 per year range for 10.9% and 14.6%. Only a minority of customers had incomes of more than $6,000 (6.8% and 7.8% respectively).

124. The Niagara Finance Company survey covered 2,422 new customers in 49 branches during October 1961 and the details are summarized in Table VI - 10 to VI - 13. As Table VI - 10 shows, 28% of the customers expected to use the proceeds of their loans for debt consolidation, and 21% for automobile repair and purchases. Other popular uses include household repairs (7%), the purchase of home furnishings and appliances (5%), travel expenses and holidays (4½%), clothing (4%), and medical, dental and hospital bills (4%). Occupational characteristics are summarized in Table VI - 11; almost one-half of the customers were classified as skilled labour and tradesmen (24.8%), and service workers (22.7%). Table VI - 12 summarizes the income characteristics of the customers, showing that 11% of this sample had incomes of $2,400 or less, 28.8% had incomes in the $2,401 - $3,600 bracket, 30.5% in the $3,601 - $4,800 bracket, and 16.5% in the $4,801 - $6,000 bracket. The remaining 13.2% had incomes in excess of $6,000.

125. Abuses of Consumer Credit

In closing this section, we would like to make a brief observation on the abuse of consumer credit. It is quite obvious that there are always some spending units in our community which, because of a lack of proper planning, or perhaps because of a degree of over-anticipation of future income gains, go into debt beyond their ability to repay.

126. We align outselves with all responsible agencies in deploring such instances of unintentional abuse. Where an instalment sale is concerned it does happen that the seller, the credit grantor and the credit user all lose financially. Equally important, each suffers damage to his esteem and reputation, particularly where the enforced return of a good is involved. With the safeguards built into its credit appraisal procedure and equity requirements, the sales finance company makes every effort to minimize such

1961. Income earners in the $3,601 - $4,800 per year bracket accounted for 26.6% and 24.6% of all customers respectively, and those in the $4,801 - $6,000 per year range for 10.9% and 14.6%. Only a minority of customers had incomes of more than $6,000 (6.8% and 7.8% respectively).

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occurrences. Also in I.A.C.'s descriptive literature designed for the consumer, we advocate restraint by publicizing basic ground rules for the wise use of instalment purchase credit. But ours is a free society and there can be no ultimate safeguard against over-confidence or imperfect planning by the credit user, nor against unforeseen changes in his economic circumstances.

127. Those who would protect the consumer against consumer debt on moral grounds should always keep in mind that their judgements are made on welfare grounds. In normal times the welfare judgments of an individual consumer on his ability to contract and service debt are as important (if not more so) as any would-be regulator's judgment that the consumer's ability to do this should be curtailed. Experience has shown that any legislative or other artificial interference with basic consumer motivations is bound to invite illegal and unscrupulous activities which arise so often when society imposes prohibitions violating the basic tastes of its members.

SECTION VII

CONSUMER CREDIT CONTROLS

128. The question of the usefulness of consumer credit controls has received considerable attention in Canada, the United States, and other countries in recent years. It is not the intent of this section to review previous studies on this subject; our purpose is to give a short summary of the past Canadian experience with consumer credit controls, to suggest some yardsticks to guide discussions of the propriety of having consumer credit stand-by controls in peacetime, and finally, to advance some suggestions for public policy in the event that an inflationary period such as occurred in the boom of the middle Fifties should occur again. For this reason we will also review our credit policies in the 1955 to 1956 boom.

129. Canadian background and experience

Canada has used specific controls on consumer instalment credit on two occasions; during World War II and during the Korean emergency. In each case, the controls were part of an overall restrictive monetary and fiscal programme, including indirect taxes on consumer durable goods, personal income tax increases and particularly in the second period, restraints in the overall volume of bank credit.

The first regulation covering consumer credit in Canada was introduced by the Wartime Prices and Trade Board on October 14, 1941. This was followed by several other orders to include household durable goods usually purchased on the instalment plan. The controls were consolidated on February 1, 1943; minimum down payment was set at one-third of the retail price, purchases of less than $500 on instalment credit had to be paid in 10 months, and those over $500 in 15 months. Minor changes in the regulations were consolidated in a January 1945 order, and on January 13, 1947, all consumer credit controls were removed.

130. In November 1950, consumer credit regulations were re-established as part of a general anti-inflationary programme. The initial regulations provided for a one-third down payment for cars and 20% on all other goods; maximum maturity was 18 months for all goods. In March 1951, consumer credit regulations were intensified; down payments were raised to one-half for automobiles and one-third for other consumer goods, and the maximum repayment period was shortened to 12 months. This was followed by a small relaxation of the controls in August 1951, further relaxation in January 1952, and finally a full suspension of all regulations on instalment credit on May 6, 1952. [1)]

131. In the 1955-56 boom, when the emergency powers of the federal government were no longer available, the Bank of Canada attempted to curtail the expansion of instalment credit through indirect means. After November 1955, the chartered banks did not authorize any increases in lines of credit for sales finance companies. But because of unutilized bank credit lines, bank loans to finance companies continued to increase in 1956 (chartered bank loans to sales finance companies increased by $84 million, from $310 million outstanding at the end of 1955 to $394 million at the end of 1956). In the same period I.A.C.'s total outstanding chartered bank loans were reduced from $91.5 million to $85.6 million. Following the inability of the sales finance companies to agree (in November 1956) on measures to limit the expansion of their lending, the chartered banks took further steps of changing authorized credit limits for the larger companies, so that no further increase in bank loans would be permitted to such companies beyond the maximum point reached at that time, except on a purely temporary basis.

132. I.A.C.'s credit policies during that period serve as a useful historical footnote for that period. In 1956, management became increasingly concerned with steeply rising money costs and the realization that we might have to face a long period of high interest rates.

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1) Consumer Instalment Credit, op.cit., Part I, Volume 2, Pages 260-266.

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151. In the 1955-56 boom, when the emergency powers of the federal government were no longer available, the Bank of Canada attempted to curtail the expansion of instalment credit through indirect means. After November 1955, the chartered banks did not authorize any increases in lines of credit for sales finance companies. But because of unutilized bank credit lines, bank loans to finance companies continued to increase in 1956 (chartered bank loans to sales finance companies increased by $84 million, from $210 million outstanding at the end of 1955 to $294 million at the end of 1956). In the same period I.A.C.'s total outstanding chartered bank loans were reduced from $91.5 million to $55.6 million. Following the inability of the sales finance companies to agree (in November 1956) on measures to limit the expansion of their lending, the chartered banks took further steps of changing authorized credit limits for the larger companies, so that no further increase in bank loans would be permitted to such companies beyond the maximum point reached at that time, except on a purely temporary basis.

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1) Consumer Instalment Credit, op.cit., Part I, Volume 2,

Several months before the Bank of Canada asked the instalment finance companies to keep their outstandings from going higher, we instituted a program to cut down on the use of money through an upgrading of quality in respect to the terms of the business then acquired. Detailed instructions were issued to all our branches, raising the credit sights of paper we would purchase to conform with our philosophy of credit appropriate for such a period. This was backed up by a sales promotion program to have our dealers cooperate with our efforts. Thus our experience showed that any sound finance company must do a lot of policing on its own initiative in a period when interest rates are rising rapidly in order to retain a sound balance between the cost of money and its income. The policies we followed during much of 1956, particularly after our "quality control program" was put into effect in May 1956, did have an automatic moderating effect.

133. In the course of our negotiations with the Bank of Canada in late 1956, we expressed willingness to cooperate in any agreement that could be reached by the sales finance companies and the Bank of Canada in limiting expansion of instalment sales credit. We hoped that moral suasion by the Bank could bring together the major companies in this industry to achieve some overall quantitative credit restrictions in tune with the objectives of monetary and credit policies of that period. This was done in the belief that a voluntary restraint program is preferable to outright control of sales instalment finance company credit by government regulation. Beyond this, we found that the admonitions of the Bank of Canada with regard to the necessity of keeping retail balances outstanding at a level corresponding to October 1956 also fell in line with our thinking based on sound business practices. In our case, this level was not exceeded again until June, July and August 1957, and at that time, outstanding balances did not exceed the level of October 1956 by more than 3%.

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134. We would like to suggest that instalment credit is moderated per se during periods of overall general monetary restraint, both through the tightening up of money available and its cost. These factors affected our policies before the discussions with the Bank of Canada took place in late 1956. While there may be some lag in the overall impact of monetary policy on a finance company because of seasonal factors and because of the high proportion of existing outstandings in relation to new business being acquired at the time a change of signals is called by the central authorities, there is eventually a chain reaction which finds its way all the way down the line to the consumer.

135. Objectives of Consumer Credit Control

The various objectives of consumer credit control can be classified as follows:

1) Emergency measures (wartime or partial mobilization). Instalment credit controls under those circumstances, either precede or supplement allocation and other direct controls designed to restrict the output of consumer durable goods, in order to channel productive capacity into wartime purposes. In general, we do not challenge the validity of such objectives under emergency circumstances, except to point out that sound allocation controls of materials are a prime requisite. Having blueprinted what part of the economy will be used to supply wartime goods, the imposition of consumer credit controls involves an additional welfare judgment which discriminates against the time-buyer in a period when supply of consumer durable goods is already restricted.

2) Control of the business cycle. These are attempts to restrict credit available to purchase consumer durable goods at a time when the economy operates at capacity and is threatened by inflationary pressures. In addition, there is the possibility that outstanding consumer credit balances may have an aggravating cyclical effect if income starts declining in a subsequent recession. These contentions are generally areas of conflicting opinion among economists. The fact that capacity production, full employment, etc. have been absent

in the Canadian economy in the last five years is not by itself a convincing argument that we should ignore the problems that could arise in a new period of inflation. We have pointed out that during a period of credit restrictions and rising interest rates several automatic built-in stabilizers are at work in moderating the overall amount of consumer instalment credit provided by finance companies. We would generally argue that their effectiveness will depend upon how strongly public authorities are willing to act in the general monetary and fiscal field; the stronger the anti-inflationary policies, the quicker the impact on finance companies should be. This is the area in which public policy considerations are most open to debate.

3) If there appears a need for regulating business practices pertaining to automobile manufacturing, retailing and/or financing (or similar practices in other durable goods industries) such regulations are not a job for the monetary authorities but should come from a body concerned with the regulation of business and competitive practices. If it is necessary to regulate consumer credit, particularly instalment sales credit or other types of instalment credit which could increase the amplitude of fluctuations in the demand for consumer durable goods, this is a question for countercyclical economic policy. Neither should be confused with welfare arguments and judgments about the extent to which some people go into debt; or, with remedies for the questionable practices which the fringe elements of many businesses are alleged to use at times. Would-be regulators of consumer credit on social or moral grounds should consider that their reasoning involves serious value judgment, since any form of consumer credit control by government legislation discriminates per se against time buyers. Those who contend that credit terms are loosened in times of boom, also forget that the merchant who sells on time and/or his sales finance company cannot depart too far from sound credit terms. If they do, they will not get paid for goods sold and would soon be bankrupt.

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136. Sales finance companies handle 20% of all consumer credit. To be effective, consumer credit controls would have to apply to the retail merchants, consumer loan companies, chartered banks, credit unions and others who provide the remaining 80%. The same reservation applies if it is consumer instalment credit that is to be controlled. To be effective, the controls would have to apply not only to the 25% - 30% handled by sales finance companies but also to merchants, chartered banks, loan companies and credit unions that handle the other 70% - 75%.

137. Methods of Consumer Credit Controls

Specific methods to control consumer credit can be classified as follows:

1) Traditional Methods

Minimum down payments and maximum repayment periods. These have been essentially the wartime and post-war methods used to regulate instalment credit in Canada, the United States and the United Kingdom.

2) Loan Ceilings

These regulations would limit credit grantors to a certain percentage of their credit outstanding at a specific past date. This is regulation by formula. From an administrative point of view, it has the relative advantage of checking the credit grantor's books as against the policing of retail transactions. Ceiling controls impose the following difficulties:

a) Is the ceiling imposed at any specific date an equitable division of the total market between major credit grantors? In other words, as long as we are regulating the total amount of instalment credit by this method, there is an implicit allocation of market shares, which may be detrimental to any one member of an industry.

b) "The regulation of terms and maturities operates within the framework of a market mechanism, even though it specifies certain limits. Demand and supply forces can continue to operate to

make market adjustments, despite the fact that demand is curtailed by limits on the credit employed in an individual transaction. A ceiling plan, on the other hand, sets aside the market mechanism in one important area; it implies that some device, formal or informal, must be superimposed to ration the artificially limited amount of one type of credit. It is not inconceivable that 'black markets' or extra charges for consumer credit would develop." 1)

3) Limits on the volume of funds from one or more of the following sources.

a) Chartered Bank Loans
b) Short Term Notes
c) Medium Term Notes
d) Long Term Debentures
e) Long Term Notes
f) Preferred shareholders
g) Common shareholders

The first of these methods, namely, a limitation on commercial bank loans, was used in the United Kingdom throughout the period of 1951 to 1958, and especially between 1955 to 1958. During these times, the banks were asked to regulate, within narrow limits, their lending to the finance houses and others who were active in instalment credit. 2)

The Radcliffe Committee concluded that minimum down payment and maximum repayment regulations used by the Board of Trade have been a more effective method of controlling instalment credit than restrictions on the availability of funds to sales finance companies. However, the conclusions of the Radcliffe Committee may not be

1) Consumer Instalment Credit, op.cit., Part I, Volume 1, page 303.

2) Report on the Committee on the Working of the Monetary System, Cmnd. 827, August 1959, paragraph 433, page 150. In Canada we have somewhat of a parallel in the 1955 to 1956 period, when the Bank of Canada sought to restrict chartered bank lending to the sales finance companies.

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not make any definite recommendations, concluding only that "even after thoughtful consideration of the arguments presented, reasonable minds will still find room for disagreement". (Volume I, Part 1, Page 386)

2) The Board of Governors of the Federal Reserve System (May 1957)

"The Board of Governors believes that a special peacetime authority to regulate consumer instalment credit is not now advisable. The Board feels that the broad public interest is better served, if potentially unstabilizing credit developments are restrained by the use of general monetary measures and by the application of sound public and private fiscal policies." (Printed in the Federal Reserve Bulletin, June 1957, Pages 647 to 648)

3) William C. Hood, Financing of Economic Activity in Canada (1958) prepared for the Royal Commission on Canada's Economic Prospects:

"Perhaps, in the future we shall have to resort to specific measures to control the sources of funds to finance companies in periods of inflation. We have suggested that given the special circumstances the inflations so far experienced in the 1950's - rapid growth of the practice of using consumer credit and the concomitant process of developing new sources of funds for the finance companies - it is difficult to forecast how effective general monetary pressures may be in restraining consumer credit in the future. We are not inclined, therefore, to urge immediate legislative action which would give federal authorities direct control over the amounts that finance companies may borrow or the specific uses to which they put their funds (such as cash reserves, for example)." (Pages 196-197)

4) Commission on Money and Credit (Committee for Economic Development):

"During wartime emergencies, direct controls of the output and sale of consumer durables probably would be imposed, and if so, consumer credit would be redundant.
"During more normal periods, it might be useful to discourage undue loosening of credit terms when the demand for durables is an important source of inflationary pressure. But as a regular countercyclical tool of stabilization, its practical possibilities are limited.

"The Commission is almost evenly divided as to desirability of granting standby authority to the Federal Reserve Board for consumer credit controls. In the absence of a consensus, no recommendation is made except to urge an investigation of better forms of such controls which could be administered more effectively if they should be needed." (Money and Credit, 1961, Page 74)

5) Committee on the Working of the Monetary System (Radcliffe Committee):

"Apart from interest rates and prescribed ratios as to the distribution of assets, there are only three monetary regulators which our inquiry has left with us as deserving of serious attention under conditions that are less than those of real emergency: control of international capital movements, control of the terms of hire pur-

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[illegible]

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chase credit and, under certain circumstances, controls over lending by other financial institutions and the banks, for example for the purpose of financing house purchase and property development. And the control of hire purchase credit, despite its immediate effectiveness, has such disadvantages in its impact on the comparatively narrow range of industries concerned that we can counsel only a sparing resort to such measures of regulation. On the other hand, if there does appear at any time a grave threat of the situation getting seriously out of hand, we advocate a combination of measures which can strike promptly and vigorously at the central points of the financial system: limitation of bank advances, of new capital issues and of hire purchase credit." (Command 827, paragraph 984, page 338.)

139. Today, the control of consumer instalment credit, let alone all consumer credit, can by no means be accomplished by supervision directed only at sales finance companies. Consumer credit is a many-splendoured thing, and the market share of major suppliers of such credit are shifting rapidly. There is inadequate recognition that a variety of sources can supply instalment credit for the purchase of consumer durable goods. To control instalment credit by regulating sales finance companies alone would, therefore, be an increasingly ineffective method.

140. To select consumer credit (among major categories of credit) or sales finance company credit (among various types of consumer credit) for control by direct or indirect means, also implies an interference with the free allocation of credit, and discrimination against the time buyer. Professor Hood has suggested that:

"The restrictions on bank loans to finance companies which were imposed on more than one occasion affected the banks' distribution of assets and of funds . This is an obvious fact, but relevant here. The restrictions represent a direct interference with the allocation of funds as between consumers and others. The Bank of Canada, in its reports is always very careful to state that these restrictions were imposed by the banks. It is reported however (in the 1956 Annual Report) that the Bank held discussions with representatives of the major instalment finance companies with a view to reaching a voluntary agreement to prevent further significant increases in the total volume of consumer credit. It is an important question whether it is a proper function of the Bank of Canada (as presently constituted or otherwise) to interfere even in this way with the allocation of funds ...." 1)

141. For our own part we believe that the most authoritative studies on the question of permanent standby controls over instalment credit leave considerable doubt and disagreement on the effectiveness

1) Financing of Economic Activity in Canada, op.cit., page 421.

[illegible] credit only, under current circumstances, [illegible] lending by other financial institutions [illegible] the banks, for [illegible] for the purpose of [illegible] ment. And the control of bank credit, [illegible] discretionary [illegible] comparatively [illegible] range of industries [illegible] only a [illegible] pressure of legislation. [illegible] the other hand, [illegible] the [illegible] system [illegible] of the financial [illegible] (Hansen [illegible])

699. Third, the control of consumer installment credit, [illegible] alone all consumer credit, can be [illegible] by regulation directed only at [illegible] consumer credit is a [illegible] splendid thing, and the [illegible] are shifting rapidly. There is [illegible] sources and [illegible] consumer [illegible]

[illegible]

[illegible] control [illegible] direct or indirect [illegible] the [illegible] allocation of credit [illegible]

[illegible]

[illegible]

of this tool as a countercyclical measure; certainly no iron-clad conclusions or recommendations seem possible.

142. Our own experience in the 1955-56 period has shown that for reasons of sound credit policy we imposed credit restraint even before this became a topic of discussion with the Bank of Canada. For reasons beyond our own control, agreement was not reached between the Bank and the sales finance companies at that time, even though we had hoped that moral suasion could have served its purpose. Among the capital, debt and lending "formulae" available for consumer credit control, each contains at least one element of discrimination against one or more members of the industry, and we would generally not favour them, even if they would give us a competitive advantage. The traditional means of control under emergency conditions - minimum down payments and maximum repayment periods - have their problems of policing and evasion, but seem to have done their job under the emergency circumstances for which they were designed.

143. What if the history of 1955-56 repeats itself with another period of full employment, capacity operations in most industries, and heavy inflationary pressures? We are convinced that vigorous monetary and fiscal policy can have a decisive impact on the operations of sales finance companies if they are used quickly to affect both the supply and the price of loanable funds. As we have shown, contrary to popular conception, sound credit policies limit us in the extent to which we can stretch out maturities. If this is combined with a set of strong signals from the Central Bank as to desirable monetary and credit policies along with regular consultations between the Central Bank authorities and sales finance companies, we believe that cyclical objectives with respect to this portion of consumer instalment credit can be reached. Under these circumstances we see no need for singling out sales finance companies for specific selective controls over consumer credit, nor the necessity for inventing complicated formulae for such controls. Any of the alternative methods represent a strong element of discrimination and an interference with the free allocation of credit.

[illegible]

conclusions or recommendations on these points.

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[illegible] companies, [illegible] circumstances [illegible] for specific [illegible] for instance, companies [illegible] other methods [illegible] finance with the [illegible]

APPENDIX I

Tables I - 3 and I - 4

APPENDIX I
Table I-3

Consumer Credit Balances Outstanding in Canada - End of Year 1951-1961 - Millions of $

	INSTALMENT SALES CREDIT						OTHER INSTALMENT CREDIT			
End of Year	Instalment Fin. Cos. (1)	Small Loan Companies (2)	Dept. Stores (3)	Other Ret. Dealers (4)	Total Instalment Sales Credit (5)=(1)+(2)+(3)+(4)	Personal Cash Instal'mt Loans (6)	Credit Unions (7)	Chart. Bks. Home Improvement Loans (8)	Chartered Banks Instalment Cr.* (9)	Total Instalment Credit (10)=(5)+(6)+(7)+(8)+(9)
1951	186	-	44-E	96	326	114	76		204	720
1952	373	-	80	163	616	148	94		242	1,100
1953	516	3	101	183	803	173	129		308	1,413
1954	492	6	116	206	820	209	151		351	1,531
1955	599	6	147	230	982	273	174	24	441	1,894
1956	756	13	161	248	1,178	343	226	38	435	2,220
1957	780	15	173	271	1,239	347	258	48	420	2,312
1958	768	19	187	266	1,240	382	320	58	553	2,553
1959	806	38	209-E	274	1,327	446	397	60	719	2,949
1960	828	45	241-E	271	1,385	504	425	56	857	3,227
1961	760	35	267-E			548		66	1,030	
Changes (Million $)										
1951-56	570	13	117	152	852	229	150	38	231	1,500
1956-60	72	32	80	23	207	161	199	18	422	1,007
1951-60	642	45	197	175	1,059	390	349	56	653	2,507

E - Estimate (See page)

* "All other Personal Loans", including single payment personal loans for which details are not reported. Loans specifically repayable by equal instalments of principal and interest were first reported in 1961; outstandings totaled $281 million at the end of September 1961.

APPENDIX I -
Table I-3 (cont'd)

Consumer Credit Balances Outstanding in Canada - End of Year 1951-1961 - Millions of $

End of Year	SINGLE PAYMENT CREDIT						Total Single Payment Cr.	Total Consumer Credit
	Department Stores** (11)	Other Retail Charge Accts. (12)	Oil Company Credit Cards (13)	Chrt. Bk. Loans Secured*** (14)	Life Insurance Cos. Policy Loans (15)	Quebec Savings Banks (16)	(17)=(11)+(12)+(13)+(14)+(15)+(16)	(18)=(10)+(17)
1951	34-E	232		226	199	5	696	1,416
1952	61	248		258	213	6	786	1,886
1953	66	274		269	225	8	842	2,255
1954	70	293		253	240	7	863	2,394
1955	80	294	20	339	250	8	991	2,885
1956	83	306	26	313	270	11	1,009	3,229
1957	89	293	32	257	295	13	979	3,291
1958	95	313	35	287	305	12	1,047	3,600
1959	105-E	327	40	282	323	13	1,090	4,039
1960	123-E	325	44	286	344	14	1,136	4,363
1961	134-E		47	336	360	17		
Changes (Million $)								
1951-56	49	74	26	87	71	6	313	1,813
1956-60	40	19	18	(27)	74	3	127	1,134
1951-60	89	93	44	60	145	9	440	2,947

** Includes other deferred payments plans and charge accounts
*** By marketable bonds and stocks

APPENDIX I
Table I-4

Percentage Distribution of Consumer Credit Balances Outstanding in Canada
End of Year 1951 - 1960

End of Year	Instalment Sales Credit: Inst. Fin. Cos. (1)	Instalment Sales Credit: Small Loan Cos. (2)	Instalment Sales Credit: Department Stores (3)	Instalment Sales Credit: Other Retail Dealers (4)	Total Instalment Sales Credit (5)=(1)+(2)+(3)+(4)	Personal Cash Inst. Loans (6)	Other Instalment Credit: Credit Unions (7)	Other Instalment Credit: Ch.Bks.Home Impr. Loans (8)	Ch. Bks. Inst. Cr.* (9)	Total Instalment Credit (10)=(5)+(6)+(7)+(8)+(9)
1951	13.14	-	3.11	6.78	23.03	8.05	5.37	-	14.41	50.86
1952	19.78	-	4.24	8.64	32.66	7.85	4.98	-	12.83	58.32
1953	22.88	0.13	4.48	8.12	35.61	7.67	5.72	-	13.66	62.66
1954	20.55	0.25	4.85	8.60	34.25	8.73	6.31	-	14.66	63.95
1955	20.76	0.21	5.10	7.97	34.04	9.46	6.03	0.83	15.29	65.65
1956	23.41	0.40	4.99	7.68	36.48	10.62	7.00	1.18	13.47	68.75
1957	23.70	0.46	5.26	8.23	37.65	10.54	7.84	1.46	12.76	70.25
1958	21.33	0.53	5.19	7.39	34.44	10.61	8.89	1.61	15.36	70.92
1959	19.96	0.94	5.17	6.78	32.85	11.04	9.83	1.49	17.80	73.01
1960	18.98	1.03	5.52	6.21	31.74	11.55	9.74	1.28	19.64	73.96
1961										

For notes see Table I-3.

APPENDIX I -
Table I-4 (cont'd)

Percentage Distribution of Consumer Credit Balances Outstanding in Canada
End of Year 1951 - 1961

End of Year	SINGLE PAYMENT CREDIT Department Stores** (11)	Other Retail Charge Accts. (12)	Oil Company Cr. Cards (13)	Chartered Banks Loans Secured*** (14)	Life Insurance Co. Policy Loans (15)	Que. Saving Banks (16)	Total Single Payment Credit (17)=(11)+(12)+(13)+(14)+(15)+(16)	Total Consumer Credit (18) =(10)+(17)
1951	2.40	16.38	-	15.96	14.05	0.35	49.14	100.00
1952	3.23	13.15	-	13.68	11.29	.32	41.68	100.00
1953	2.93	12.15	-	11.93	9.98	.35	37.34	100.00
1954	2.92	12.24	-	10.57	10.02	.29	36.05	100.00
1955	2.77	10.19	0.69	11.75	8.67	.28	34.35	100.00
1956	2.57	9.48	0.81	9.69	8.36	.34	31.25	100.00
1957	2.70	8.90	0.97	7.81	8.96	.40	29.75	100.00
1958	2.64	8.69	0.97	7.97	8.47	.33	29.08	100.00
1959	2.60	8.10	0.99	6.98	8.00	.32	26.99	100.00
1960	2.82	7.45	1.01	6.56	7.88	.32	26.04	100.00
1961								

** Includes other deferred payments plans and charge accounts
*** By marketable bonds and stocks.

APPENDIX 2

Tables V - 1 to V - 16

Table V - 1

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

Condensed Balance Sheets at Dec. 31, 1950 and Dec. 31, 1961

(000$)

ASSETS	DECEMBER 31				PER $100 EQUITY	
	1950		1961			
	000$	% of Total	000$	% of Total	1950	1961
Cash	2,507	1.73	7,817	1.29	17.09	8.12
Marketable Securities	2,322	1.60	66,533	10.97	15.83	69.13
Total: Cash & Marketable Sec.	4,829	3.33	74,350	12.26	32.92	77.26
Receivables:						
Retail	105,494	72.71	376,292	62.03	719.01	390.99
Wholesale	30,239	20.84	54,390	8.97	206.10	56.51
Direct Secured Instalment Loans	4,545	3.13	92,456	15.24	30.98	96.07
Other Instalment Paper	794	.55	9,855	1.62	5.41	10.24
Sundry Accounts Receivable	400	.28	665	.11	2.73	.69
Total Receivables	141,472	97.51	533,658	87.98	964.23	554.50
Less:						
Reserve for Losses	(2,382)	(1.64)	(8,262)	(1.36)	(16.23)	(8.59)
	139,090	95.87	525,396	86.61	948.00	545.92
Total Circulating Assets	143,919	99.20	599,746	98.87	980.91	623.17
Other Assets *	1,167	.80	6,845	1.13	7.95	7.11
TOTAL	145,086	100.00%	606,591	100.00%	988.86	630.28

* Repossessions, fixed assets, prepaid expenses, etc.
Details may not add to totals because of rounding.

Table V - 1 (cont'd)

LIABILITIES	DECEMBER 31				PER $100 EQUITY	
	1950		1961			
	000$	% of Total	000$	% of Total	1950	1961
Accounts Payable, Income Taxes Payable & Dealers' Credit Balances	8,129	5.60%	30,247	4.99%	55.40	31.43
Unearned Service Charges	9,219	6.35	52,243	8.61	62.83	54.28
Notes and Debentures:						
Secured demand & short term notes	53,066	36.58	201,132	33.16	361.68	208.99
Secured term notes	50,000	34.46	145,845	24.04	340.79	151.54
Total senior debt	103,066	71.04	346,977	57.20	702.47	360.53
Debentures	10,000	6.89	80,883	13.33	68.16	84.04
Total Debt	113,066	77.93	427,860	70.53	770.63	444.57
Equity:						
Preferred stock	5,080	3.50	17,635	2.91	34.62	18.32
Common stock	4,048	2.79	28,785	4.75	27.59	29.91
Capital Surplus			1,941	.32		2.02
Retained Earnings	5,544	3.82	47,880	7.89	37.79	49.75
Total Equity	14,672	10.11	96,241	15.87	100.00	100.00
Total	145,086	100.00%	606,591	100.00%	988.86	630.28

Details may not add to totals because of rounding.

Table V - 2

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

NET FLOW OF FUNDS

(Thousands of Dollars)

Sources of (Disposition)	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	TOTAL 1951-1961
1. Cash	(7,342)	2,416	(4,273)	128	6,555	(587)	(7,896)	2,959	(2,591)	3,213	2,109	(5,310)
2. Retail Instalment Paper	(657)	(94,857)	(35,844)	36,168	(44,922)	(93,012)	3,589	5,174	(35,044)	(23,695)	12,302	(270,798)
3. Wholesale Paper	(5,491)	28	204	13,386	(34,876)	5,453	(5,532)	2,285	(3,297)	(10,230)	13,919	(24,151)
4. Direct Sec. Instalment Loans	(3,468)	(6,883)	(3,357)	(4,572)	(5,554)	(9,580)	(2,423)	(11,341)	(11,144)	(18,217)	(11,373)	(87,911)
5. Repossessions	(19)	(171)	(88)	67	85	77	(19)	18	(70)	(21)	(42)	(183)
6. Other Instalment Obligats.	(106)	(267)	(153)	(738)	(1,467)	(1,069)	(832)	(308)	(370)	(2,356)	(1,397)	(9,063)
7. Sundry Accts. Rec.	(368)	52	(78)	(1,590)	682	263	262	394	(83)	86	115	(265)
8. Marketable Securities	(1,056)	(2,154)	(538)	(727)	(920)	(961)	492	(14,674)	(40,229)	(8,271)	4,828	(64,211)
9. Other Assets	(4)	(138)	(2,092)	(927)	(362)	(106)	47	8	(272)	(673)	(975)	(5,494)
10. Sec. Demand & Short Term Notes	14,291	68,097	14,380	(59,171)	58,978	51,528	(16,781)	(7,749)	61,284	7,074	(43,866)	148,066
11. Accts. Payable & Accrued Liab.	271	338	1,162	860	(26)	607	103	594	582	2,725	1,016	8,232
12. Income Taxes	1,019	1,657	426	(683)	(182)	640	235	1,239	(337)	1,161	420	5,595
13. Dealers' Credit Balances	-	3,335	3,316	(502)	285	2,871	601	(329)	(27)	(936)	(322)	8,292
14. Deferred Income	(1,231)	11,266	3,108	(1,920)	6,043	10,054	749	3,547	7,855	6,359	(2,805)	43,024
15. Secured Term Notes	-	-	3,326	5,500	6,000	17,405	7,821	7,439	10,291	28,971	9,093	95,845
16. Debentures	2,000	4,780	9,320	11,950	(1,246)	2,989	15,130	4,136	6,620	6,958	8,246	70,883
17. Res. for Doubtful Receivables	660	1,697	566	(592)	61	200	564	730	687	503	803	5,880
18. Preferred Stock	(770)	4,373	4,802	(4,491)	1,004	9,762	(441)	(526)	(314)	(421)	(424)	12,555
19. Common Stock	608	3,766	2,604	4,731	6,676	49	313	772	963	1,649	2,606	24,737
20. Capital Surplus	162	103	66	53	(385)	238	441	526	314	421	-	1,941
21. Retained Earnings	1,502	2,541	3,165	3,069	3,570	3,179	3,576	5,105	5,182	5,699	5,746	42,336
22. Provision for Dividends on Preferred Stock		22	(22)									

Details may not add to totals because of rounding.

Table V - 3

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED
Flow of Funds
December 31, 1950 - December 31, 1961

(000 $)

Sources of Funds	000$	% of Total
Secured demand and term notes	$ 148,066	32.09
Secured term notes	95,845	20.77
Debentures	70,883	15.36
Total Debt	$ 314,794	68.22
Accounts Payable, Income Tax Payable & Dealers' credit balances	22,118	4.79
Unearned Service Charges	43,024	9.32
Preferred stock	12,555	2.72
Common stock	24,737	5.36
Capital surplus	1,941	.42
Retained earnings	42,336	9.17
Total Equity	$ 81,569	17.67
Total - Sources of funds	$ 461,505	100.00%

Application of Funds	000$	% of Total
Cash	$ 5,310	1.15%
Marketable Securities	64,211	13.91
Total: Cash & Marketable Securities	$ 69,521	15.07
Receivables:		
Retail	$ 270,798	58.68%
Wholesale	24,151	5.23
Direct secured instalment loans	87,911	19.05
Other instalment paper	9,061	1.96
Sundry accounts receivable	265	.06
Total Receivables	$ 392,186	84.99
Less: Reserve for losses	(5,880)	(1.27)
Net Receivables (earning assets)	$ 386,306	83.71
Total circulating assets	$ 455,827	98.78
Other assets	5,678	1.23
	$ 461,505	100.00%

Details may not add to totals because of rounding.

Table V-4

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

Debt and Shareholders' Equity
000$
1950 - 1961

	Total Shareholders Equity (1)	Debentures (2)	Equity Debentures (3)	Secured Term Notes (4)	Secured Demand & Short Term Notes (5)	"Senior Debt" (4+5) (6)	Ratio of Sr. Debt to Equity & Deb. (7)	Total Debt (2+6) (8)	Ratio of Total Debt to Equity (9)
1950	$14,672	$10,000	$24,672	$50,000	$53,066	$103,066	4.18	$113,066	7.71
1951	16,174	12,000	28,174	50,000	67,357	117,357	4.17	129,357	8.00
1952	26,957	16.780	43,737	50,000	135,454	185,454	4.24	202,234	7.50
1953	37,594	26,100	63,694	53,326	149,834	203,160	3.19	229,260	6.10
1954	40,957	38,050	79,007	58,826	90,663	149,489	1.89	187,539	4.58
1955	51,825	36,804	88,629	64,826	149,641	214,467	2.42	251,271	4.85
1956	65,053	39,793	104,846	82,231	201,169	283,400	2.70	323,193	4.97
1957	68,942	54,923	123,865	90,051	184,388	274,439	2.22	329,362	4.78
1958	74,819	59,059	133,878	97,490	176,639	274,129	2.05	333,188	4.45
1959	80,965	65,679	146,644	107,781	237,924	345,705	2.36	411,384	5.08
1960	88,313	72,637	160,950	136,752	244,998	381,750	2.37	454,387	5.15
1961	96,241	80,883	177,124	145,845	201,132	346,977	1.96	427,860	4.45

Table V - 5

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

Profit Ratios - Total Shareholders' Equity

1950 - 1961

	Gross Income (000$)	Net Earnings* (000$)	Total Shareholders' Equity (000$)	Ratio of Net Earnings To - Gross Income	Ratio of Net Earnings To - Total Shareholders' Equity
1950	$16,877	$ 2,836	$ 14,672	16.8%	19.3%
1951	22,065	3,004	16,174	13.6	18.6
1952	30,261	4,997	26,957	16.5	18.5
1953	42,369	6,969	37,594	16.4	18.5
1954	39,489	6,837	40,957	17.3	16.7
1955	40,092	7,395	51,825	18.4	14.3
1956	51,714	8,586	65,053	16.6	13.2
1957	58,464	9,184	68,942	15.7	13.3
1958	60,471	10,735	74,819	17.8	14.3
1959	68,487	10,897	80,965	15.9	13.5
1960	80,810	12,089	88,313	15.0	13.7
1961	84,352	12,536	96,241	14.9	13.0
			Average 1950 - 1961	16.1	14.5

* Before all dividends, profit on redemption of securities, cost of debenture issues, etc.

Table V - 6

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

NET EARNINGS ON TOTAL SHAREHOLDERS' EQUITY AS A PERCENT OF TOTAL ASSETS AND NET RECEIVABLES

1950-1961

	Net Earnings on Total Shareholders' Equity (000$)	Total Assets (000$)	Net Receivables (000$)	Net Earnings on Total Shareholders' Equity as a Percent of Total Assets	Receivables
1950	$2,836	$145,086	$139,174	2.0%	2.0%
1951	3,004	162,937	148,623	1.8	2.0
1952	4,997	263,215	249,025	1.9	2.0
1953	6,969	308,868	287,775	2.3	2.4
1954	6,837	268,265	245,647	2.6	2.8
1955	7,395	348,984	331,638	2.1	2.2
1956	8,586	448,306	429,306	1.9	2.0
1957	9,184	460,053	433,695	2.0	2.1
1958	10,735	474,808	436,742	2.3	2.5
1959	10,897	567,222	486,063	1.9	2.2
1960	12,089	628,880	539,991	1.9	2.2
1961	12,536	606,591	525,664	2.1	2.4

Table V - 7

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

Debenture Issues - 1950 to Date

Authorized Principal Amount	Amount Outstanding (Feb. 15, 1962)	Particulars	Issue Date	Maturity Date
$10,000,000	7,176,000	4 % Sinking Fund Debs.	4/1/50	4/1/69
2,500,000	1,294,000	4 % " " "	3/1/51	3/1/70
5,000,000	3,134,000	5 % " " "	7/2/52	7/2/70
5,000,000	2,671,000	5 % " " "	1/2/53	1/2/71
5,000,000	2,979,000	5½ % " " "	7/2/53	7/2/73
7,500,000	5,760,000	5¼ % " " "	2/1/54	2/1/74
5,000,000	4,077,000	4½ % " " "	10/1/54	10/1/74
5,000,000	4,119,000	5¼ % " " "	6/1/56	6/1/75
12,000.000	9,960,000	5 3/4% Debentures	1/15/57	1/15/77
5,000,000	4,682,000	6 % Debentures	9/1/57	9/1/77
6,000,000	5,169,000	5½ % Debentures	2/1/58	2/1/78
10,000,000	9,862,000	6 % Debentures	6/15/59	6/15/79
10,000,000	10,000,000	6 3/4% Debentures	2/1/60	2/1/80
10,000,000	10,000,000	5 3/4% Debentures	7/2/61	7/2/81
10,000,000	10,000,000	5 3/4% Debentures	2/15/62	2/15/82

Table V - 8

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

Secured Term Notes Issued 1950 - Date

Series	Principal Issued '50 to Date	Amount Outstanding 12/31/1961	Date of Issue	Maturity Date	Coupon Interest Rate	MATURITY (years)
F	$10,000,000	-	4/1/50	4/1/57	3¼%	7
G	5,000,000	-	9/1/50	3/1/53	2 3/4	2½
H	3,000,000	-	10/1/50	10/1/53	2 3/4	3
I	5,000,000	-	11/15/50	11/15/57	3¼	7
J	5,000,000	$ 5,000,000	11/15/50	11/15/66	3½	16
K	2,500,000	-	10/1/52	10/1/54	4	2
L	2,000,000	2,000,000	10/1/52	10/1/64	4 3/4	12
M ★	9,825,938	9,825,938	3/2/53	3/2/68	4 1/8	15
N	3,000,000	3,000,000	8/15/53	2/15/65	5	11½
O	10,000,000	10,000,000	7/2/54	7/2/72	4 1/4	18
P	6,000,000	6,000,000	12/15/55	12/15/70	4 1/2	15
Q	12,500,000	12,500,000	3/15/56	3/15/71	4 1/2	15
R ★	4,904,687	-	10/1/56	10/1/63	4 1/4	7
S ★	16,280,645	16,280,645	2/15/57	2/15/77	5 1/2	20
T	6,000,000	6,000,000	4/1/59	4/1/79	5 3/4	20
U	12,500,000	12,500,000	12/1/59	12/1/74	6 1/2	15
V	5,000,000	5,000,000	12/1/59	12/1/79	6 1/2	20
W	7,500,000	7,500,000	8/15/60	8/15/80	6	20
X	8,500,000	8,500,000	11/15/61	11/15/81	5 3/4	20
Issues Before 1950		5,000,000				
	$134,511,270	$109,106,583				

★ Sold in the United States for U.S. Funds.
NOTE: All issues were sold at par.

Table V - 9

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED*

CHARTERED BANK LOANS OUTSTANDING AT
MID-YEAR AND YEAR-END AND WEIGHTED AVERAGE
INTEREST RATES ON BANK LOANS
1951 - 1961

End Of	Chartered Bank Loans Outstanding 000$	Weighted Average Interest Rate	End Of	Chartered Bank Loans Outstanding 000$	Weighted Average Interest Rate
			1956-June	$85,450	5.0%
			Dec.	85,575	5.5
1951-June	$63,355	4.5	1957-June	76,280	5.5
Dec.	23,155	4.5	Dec.	59,445	5.5
1952-June	48,655	4.5	1958-June	80,200	5.25
Dec.	70,505	4.5	Dec.	108,150	5.25
1953-June	81,375	4.5	1959-June	75,200	5.75
Dec.	71,850	4.5	Dec.	96.650	5.75
1954-June	48,530	4.5	1960-June	98,550	5.75
Dec.	43,920	4.5	Dec.	98,350	5.75
1955-June	79,870	4.5	1961-June	65,650	5.75
Dec.	91,500	4.5	Dec.	56,100	5.50

* Including Bank loans of subsidiaries.

Table V - 10

YIELDS ON SELECTED IAC SHORT TERM NOTES
AND 3 MONTH AND 6 MONTH TREASURY BILLS
AT MID-YEAR AND YEAR-END, 1951-1961

	I.A.C.		TREASURY BILLS YIELDS AT TENDER		SPREAD	
End Of	90-179 Day Notes	180-269 Day Notes	3 Month Bills	6 Month Bills	3 Month Bills	6 Month Bills
1951-June	3.25%	3.50%				
Dec.	3.25	3.50	0.89		2.36	
1952-June	3.25	3.50	1.08		2.17	
Dec.	3.50	4.00	1.35		2.15	
1953-June	3.50	4.00	1.71		1.79	
Dec.	3.50	4.00	1.89		1.61	
1954-June	2.25	2.50	1.49		.76	
Dec.	1.75	2.00	1.34		.41	
1955-June	1.75	*	1.44		.31	
Dec.	3.00	3.50	2.56		.44	
1956-June	4.00	4.25	2.52		1.48	
Dec.	5.25	5.50	3.67		1.58	
1957-June	5.25	5.50	3.81		1.44	
Dec.	4.50	4.75	3.62		.88	
1958-June	2.75	3.00	1.72		1.03	
Dec.	3.50	4.00	3.49		.01	
1959-June	5.25	5.75	5.11	5.39	.14	.36
Dec.	5.50	5.75	5.12	5.47	.38	.28
1960-June	4.00	4.25	3.07	3.23	.93	1.02
Dec.	4.00	4.25	3.25	3.54	.75	.71
1961-June	3.00	3.25	2.57	2.74	.43	.51
Dec.	3.50	3.75	2.99	3.14	.51	.61

* No renewals over 179 days.

Table V - 11

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

SHORT TERM SECURED NOTES OUTSTANDING AND WEIGHTED AVERAGE INTEREST RATES AT YEAR-END 1951-1961

End of	SHORT TERM SECURED NOTES OUTSTANDING (000$ Canadian)	WEIGHTED AVERAGE INTEREST RATE
1951	44,402	3.86%
1952	64,949	4.07%
1953	77,984	4.29
1954	46,743	3.04
1955	58,141	3.19
1956	115,594	4.99
1957	124,943	5.43
1958	68,489	3.55
1959	141,274	6.03
1960	146,648	4.41
1961	145,032	3.86

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

DOLLAR VOLUME AND NUMBER OF SHORT TERM SECURED NOTES
1951 - 1961

	VOLUME	NUMBER OF NOTES
* 1951	107,048,500	372
1952	192,324,000	698
1953	257,646,500	1,310
1954	181,924,250	846
1955	114,463,500	367
1956	347,443,000	1,363
1957	567,832,100	3,103
1958	284,961,200	1,388
1959	548,084,500	4,637
1960	572,194,475	4,816
1961	580,707,500	3,378
	3,754,629,525	22,278

* Actual volume covers only 9 months.

Table V - 13

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

SECURED SHORT TERM NOTES
VOLUME SOLD AND BALANCES OUTSTANDING IN U.S. FUNDS

	VOLUME SOLD	BALANCES OUTSTANDING DECEMBER 31
	(000 $, U.S.)	
1951	$ -	$ -
1952	-	-
1953	20,750	9,800
1954	19,690	9,700
1955	11,300	3,050
1956	66,593	18,875
1957	71,959	23,256
1958	59,998	15,730
1959	112,651	29,765
1960	102,972	24,499
1961	58,042	5,692

Table V - 14

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

WEIGHTED AVERAGE INTEREST RATES ON DEBT
AT YEAR-END, 1951-1961

Year-End	Bank Loans	Short Term Notes	Medium Term Notes	Long Term Notes	Debentures	Total Debt
1951	4.50	3.86		3.30	4.25	3.77
1952	4.50	4.07		3.47	4.61	4.10
1953	4.50	4.29		3.66	5.02	4.28
1954	4.50	3.04		3.92	5.09	4.10
1955	4.50	3.19		3.99	5.09	4.18
1956	5.50	4.99		4.10	5.14	4.92
1957	5.50	5.43	6.38	4.52	5.45	5.25
1958	5.25	3.55	5.75	4.52	5.49	4.76
1959	5.75	6.03	5.53	4.79	5.62	5.63
1960	5.75	4.41	6.05	5.05	5.82	5.13
1961	5.50	3.86	5.87	5.25	5.87	4.95

Table V - 15

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

Gross Income from Financing Operations and Interest Costs

1950 - 1961 (000$)

	Gross Income* (000$)	Interest Paid (000$)	Interest Paid as Percent of Gross Income
1950	$11,786	$ 3,703	31.4%
1951	17,432	5,152	29.6
1952	25,342	5,831	23.0
1953	33,631	9,672	28.8
1954	32,128	9,022	28.1
1955	32,675	8,008	24.5
1956	43,668	13,388	30.7
1957	49,570	17,363	35.0
1958	51,742	14,838	28.7
1959	57,719	19,619	34.0
1960	67,272	23,859	35.5
1961	69,716	22,235	31.9

* Retail Sales Financing + Wholesale Financing + Direct Secured Instalment Loans; excludes insurance premiums.

Table V - 16

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

Ratio of Liquid Assets + Receivables to Demand Loans + Secured and Unsecured Debt.
Receivables and Debt with Maturities of Six Months or Less, and One Year or Less
End of Year, 1957-1961
(Millions of Dollars)

December 31	Liquid Assets Plus Receivables with Maturity		Demand Loans Plus Secured and Unsecured Debt with Maturity		Ratio: Liquid Assets Plus Receivables to Demand Loans Plus Secured and Unsecured Debt	
	Six Months Or Less	One Year Or Less	Six Months or Less	One Year Or Less	Six Months Or Less	One Year Or Less
1957	$238	$342	$176	$187	1.35	1.83
1958	243	348	172	185	1.41	1.88
1959	295	411	222	246	1.33	1.67
1960	329	454	235	257	1.40	1.77
1961	304	426	182	215	1.67	1.98

NOTES:

(1) Liquid Assets: Cash + Marketable Securities.

(2) Receivables:
- Six Month or Less: All Wholesale Paper + Retail Instalment Paper with a maturity of six months or less.
- One Year or Less: All Wholesale Paper + Retail Instalment Paper with a maturity of one year or less.

(3) Demand Loans: Loans from Chartered Banks.

(4) Secured and Unsecured Debt:
- Six Months or Less: Short term notes + Medium term notes.+ Long Term Notes + Debentures, with a maturity of six months or less
- One Year Or Less: Short term notes + Medium term notes + Long Term Notes + Debentures, with a maturity of one year or less.

APPENDIX 3

Tables VI - 1 to VI - 12

Table VI - 1

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

AVERAGE PAY-OUT TERMS ON RETAIL PAPER PURCHASED, 1950 - 1961

(MONTHS)

	New Auto	Used Auto	Total Auto	Domestic	Industrial	Total Retail
1950	18.1	13.1	15.0	15.6	14.6	15.2
1951	14.7	12.0	12.7	11.9	13.9	12.4
1952	19.0	15.5	16.5	15.9	16.2	16.1
1953	20.3	15.5	16.8	18.2	15.4	17.4
1954	21.0	15.5	17.0	17.7	15.7	17.2
1955	22.8	16.1	18.2	18.4	15.7	18.2
1956	23.1	16.2	18.6	18.3	16.4	18.4
1957	22.9	16.0	18.2	17.9	17.0	18.1
1958	23.2	16.5	18.5	17.9	18.4	18.2
1959	24.0	16.8	19.2	18.3	19.0	18.7
1960	25.1	16.9	19.9	18.6	19.8	19.2
1961	26.1	17.1	20.6	18.0	19.9	19.2

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Table VI - 2

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

PERCENTAGE OF ACCOUNTS DELINQUENT
30 DAYS OR MORE
1950 - 1961

	1950	1951	1952	1953	1954	1955	1956	1957	1958	Closing 1959 on 25th	1960	1961
JANUARY	5.2	5.3	4.9	5.2	6.3	4.4	3.8	3.6	3.3	5.3	3.8	4.4
FEBRUARY	5.5	5.2	5.0	4.9	5.7	4.2	3.5	3.3	3.3	4.0	3.3	4.0
MARCH	4.7	4.5	4.3	4.6	4.2	3.4	3.1	3.0	2.8	3.7	3.1	4.3
APRIL	4.5	4.1	3.8	4.3	3.9	3.4	2.9	2.9	2.6	3.3	3.2	3.9
MAY	3.8	3.7	3.6	4.3	3.9	3.4	2.6	2.9	2.4	3.4	3.0	3.9
JUNE	3.5	3.6	3.9	4.7	3.7	3.2	2.8	3.3	2.6	3.0	2.9	4.0
JULY	3.7	3.7	4.2	4.7	4.1	3.7	2.8	3.1	2.6	3.4	2.9	4.2
AUGUST	3.8	3.8	4.3	5.0	4.1	3.6	2.7	3.3	3.0	3.7	3.2	4.1
SEPTEMBER	3.8	4.0	4.2	5.0	4.1	3.4	3.2	3.3	2.9	3.3	3.4	4.5
OCTOBER	4.0	4.0	4.0	4.9	4.2	3.2	2.9	3.0	2.7	3.5	3.0	4.1
NOVEMBER	4.5	4.4	4.5	5.2	3.9	2.8	2.8	3.0	3.1	2.9	2.8	3.9
DECEMBER	5.3	5.5	5.1	6.0	4.7	4.0	3.7	3.8	3.8	3.6	3.4	4.3
MONTHLY AVERAGE	4.4	4.3	4.3	4.9	4.4	3.6	3.0	3.1	2.9	3.6	3.2	4.1

Table VI - 3

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

PERCENTAGE OF DOLLAR RECEIVABLES
DELINQUENT 30 DAYS OR MORE
1950 - 1961

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
JANUARY	1.31	1.34	1.69	1.34	2.08	1.64	1.10	0.80	0.98	1.23	1.08	1.39
FEBRUARY	1.44	1.29	1.53	1.25	1.96	1.52	1.00	0.77	0.93	1.12	1.03	1.39
MARCH	1.34	1.10	1.42	1.19	1.56	1.28	0.86	0.68	0.85	1.05	0.94	1.35
APRIL	1.22	1.04	1.24	1.14	1.41	1.14	0.73	0.66	0.78	0.92	0.93	1.39
MAY	1.05	0.96	1.02	1.08	1.41	1.07	0.67	0.63	0.70	0.87	0.88	1.22
JUNE	0.93	0.90	1.05	1.10	1.41	1.02	0.60	0.73	0.75	0.80	0.84	1.26
JULY	0.88	0.92	1.05	1.15	1.42	1.05	0.64	0.71	0.78	0.92	0.98	1.37
AUGUST	0.84	0.92	1.01	1.21	1.45	1.01	0.58	0.80	0.83	1.00	1.03	1.30
SEPTEMBER	0.88	1.04	0.97	1.31	1.57	0.97	0.66	0.81	0.88	0.99	1.15	1.39
OCTOBER	1.03	1.33	1.02	1.45	1.68	1.01	0.65	0.76	0.92	1.08	1.10	1.41
NOVEMBER	1.34	1.74	1.27	1.73	1.74	1.06	0.64	0.82	0.96	1.00	1.08	1.50
DECEMBER	1.33	1.78	1.34	2.00	1.78	1.15	0.73	0.95	1.04	1.00	1.16	1.49
MONTHLY AVERAGE	1.13	1.08	1.22	1.33	1.62	1.16	0.74	0.76	0.87	1.00	1.02	1.37

Table VI - 4

NIAGARA FINANCE COMPANY

PERCENTAGE OF ACCOUNTS DELINQUENT
30 DAYS OR MORE
1952 - 1961

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
JANUARY	Unavailable	3.9	4.1	2.9	2.6	2.8	2.7	3.0	3.0	3.2
FEBRUARY		3.7	3.8	3.1	2.6	3.0	2.9	3.0	3.1	3.4
MARCH		3.4	3.0	2.7	2.4	3.2	3.0	2.9	2.9	3.2
APRIL		3.4	3.2	2.7	2.4	3.2	3.0	2.8	3.1	3.3
MAY	3.4	3.4	3.1	2.7	2.3	3.0	2.8	2.7	3.0	3.1
JUNE	3.4	3.0	2.8	2.5	2.3	3.3	3.3	2.6	3.0	3.0
JULY	3.4	3.2	3.1	2.7	2.3	3.4	2.8	2.7	3.1	3.2
AUGUST	3.6	3.3	3.2	2.4	2.2	3.2	3.0	2.8	3.1	3.2
SEPTEMBER	3.2	3.5	3.2	2.5	2.3	2.8	2.7	2.7	3.0	3.2
OCTOBER	3.3	3.6	3.1	2.5	2.2	2.7	2.9	2.7	3.0	3.3
NOVEMBER	3.4	3.8	3.0	2.5	2.3	2.8	3.2	2.8	3.1	3.3
DECEMBER	4.2	4.4	3.4	2.9	3.1	2.9	3.4	2.9	3.4	3.9
MONTHLY AVERAGE	3.5*	3.6	3.3	2.7	2.4	3.0	3.0	2.8	3.1	3.3

* Average of last eight months.

Table VI - 5

TOTAL CONSUMER INSTALMENT CREDIT* AS A PERCENTAGE OF DISPOSABLE PERSONAL INCOME

1951 - 1960

	Total Consumer Instalment Credit End of Year, Balances Outstanding (Million $)	Personal Disposable Income (Million $)	TOTAL CONSUMER INSTALMENT CREDIT AS A PERCENTAGE OF DISPOSABLE INCOME		
			Income: Same Year	Income: Next Year	Income: 2/3 Next Year +1/3 Following Yr.
1951	$ 720	$14,794	4.9%	4.5%	4.4%
1952	1,100	16,072	6.8	6.5	6.5
1953	1,413	16,904	8.4	8.3	8.1
1954	1,531	16,984	9.0	8.4	8.1
1955	1,894	18,239	10.4	9.4	9.2
1956	2,220	20,153	11.0	10.4	10.2
1957	2,312	21,274	10.9	10.1	9.9
1958	2,553	22,914	11.1	10.5	10.4
1959	2,949	24,236	12.2	11.8	n/a
1960	3,227	25,084	12.9	n/a	n/a

* As defined in Section I, Appendix 1.

Table VI - 6

TOTAL CONSUMER DEBT AS A PERCENTAGE
OF DISPOSABLE PERSONAL INCOME
1951-1960

	Total Consumer Debt,* End of Year, Balances Outstanding (Million $)	Personal Disposable Income (Million $)	TOTAL CONSUMER DEBT AS A PERCENTAGE OF DISPOSABLE INCOME		
			Income: Same Year	Income: Next Year	Income: 2/3 Next Year + 1/3 Following Yr.
1951	$1,416	$14,794	9.6%	8.8%	8.6%
1952	1,886	16,072	11.7	11.2	11.1
1953	2,255	16,904	13.3	13.3	13.0
1954	2,394	16,984	14.1	13.1	12.7
1955	2,885	18,239	15.8	14.3	14.0
1956	3,229	20,153	16.0	15.2	14.8
1957	3,291	21,274	15.5	14.4	14.1
1958	3,600	22,914	15.7	14.9	14.7
1959	4,039	24,236	16.7	16.1	n/a
1960	4,363	25,084	17.4	n/a	n/a

* As defined in Section I, Appendix 1.

Table VI - 7

CONSUMER DEBT* DISTRIBUTION OF FAMILIES AND UNATTACHED INDIVIDUALS

BY INCOME GROUPS IN MARCH, 1956

1955 Income Group	Average Income	Percent of Group Having Consumer Debt (1)	Average Debt - Entire Group (2)	Average Debt - Debtors Only (3)	CONSUMER DEBT AS A PERCENTAGE OF 1955 INCOME Entire Group (4)	Debtors Only (5)
Under $1,000	$ 551	17.2%	$ 46	$ 265	8.3%	48.1%
1,000 - 1,999	1,468	32.7	105	320	7.2	21.8
2,000 - 2,999	2,521	48.7	215	442	8.5	17.5
3,000 - 3,999	3,502	58.3	303	518	8.7	14.8
4,000 - 4,999	4,461	58.1	332	571	7.4	12.8
5,000 - 6,999	5,866	59.7	426	714	7.3	12.2
7,000 - 9,999	8,091	58.5	490	838	6.1	10.4
10,000 and over	17,481	46.1	1,490	3,234	8.5	18.5
All Income Groups	3,842	48.6	301	619	7.8	16.1

* Includes: Charge accounts, instalment debt, debt to small loan companies and credit unions, and unsecured bank loans. Excludes the following items: Oil company credit cards, chartered banks secured and home improvement loans, life insurance policy loans and Quebec Savings Banks Loans. (See Appendix I, Table I-3)

Source: D.B.S., "Incomes, Liquid Assets and Indebtedness of Non-Farm Families in Canada 1955", Reference Paper No. 80, 1958, Tables 1 and 2, page 26 and Table 32, page 46.

Table VI - 8

RELATIONSHIP BETWEEN CONSUMER DEBT AND LIQUID ASSETS

BY INCOME GROUP IN CANADA, MARCH 1956

	PERCENT OF FAMILIES AND UNATTACHED INDIVIDUALS WITH:			
1955 Income Group	No Liquid Assets and Consumer Debt	Liquid Assets Totalling Less Than Consumer Debt	Liquid Assets Totalling More Than Consumer Debt	Consumer Debt
Under $1,000	10.5%	3.4%	3.0%	16.9%
$1,000 - 1,999	20.8	4.9	7.0	32.7
$2,000 - 2,999	21.9	10.0	16.8	48.7
$3,000 - 3,999	20.2	16.9	21.3	58.4
$4,000 - 4,999	15.6	19.4	23.1	58.1
$5,000 - 6,999	10.9	24.1	24.7	59.7
$7,000 - 9,999	9.4	29.3	19.8	58.5
$10,000 and Over	3.2	23.5	19.4	46.1
All Families and Unattached Individuals	15.9	15.3	17.3	48.5

Source: D.B.S., "Incomes, Liquid Assets and Indebtedness of Non-Farm Families in Canada 1955". Reference Paper No. 80, Table 44, page 57.

Table VI - 9

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

CUSTOMER INCOME CHARACTERISTICS, 1956 AND 1961

Income Before Taxes **	Percent of Sample* 1956	1961
Up to $1,200	- %	.3%
$1,201 - 2,400	11.5	12.0
$2,401 - 3,600	44.2	30.7
$3,601 - 4,800	26.6	34.6
$4,801 - 6,000	10.9	14.6
$6,000 and over	6.8	7.8
	100.0%	100.0%

* Sample of customers was approximately 2,000 in each year

** Estimated by customer as representative of his income at the time of the instalment purchase.

Table VI - 10

NIAGARA FINANCE COMPANY

CUSTOMER SURVEY - 1961

PURPOSE OF LOANS

Purpose of Loan	Number of Customers	Per Cent Distribution
Debt consolidation	680	28.09
Automobile repairs or purchases	514	21.22
Household repairs	165	6.81
Home furnishings and appliances	117	4.83
Travel expense & holidays	109	4.50
Clothing	98	4.05
Medical, dental or hospital bills	97	4.01
Miscellaneous equipment	86	3.51
Insurance	60	2.48
Taxes	60	2.48
Assistance to relatives or friends	51	2.11
Wedding expenses	41	1.69
Moving expenses	28	1.16
Miscellaneous or unknown	316	13.06
TOTAL	2,422	100.00%

Table VI - 11.

NIAGARA FINANCE COMPANY

CUSTOMER SURVEY - 1961

NUMBER AND DISTRIBUTION OF CUSTOMERS BY OCCUPATIONAL CLASSIFICATION

Occupational Classification	Number of Customers	Per Cent Distribution
1. Skilled Labour & Tradesmen	601	24.81
2. Service	550	22.71
3. Farmers, Fishermen, etc.	265	10.94
4. Unskilled Labour	213	8.80
5. Clerical	193	7.97
6. Supervisory	158	6.52
7. Salesmen and Agents	132	5.45
8. Professional	82	3.39
9. Proprietary & Managerial	76	3.14
10. Armed Forces	64	2.64
11. Others or Unknown	88	3.63
TOTAL	2,422	100.00%

OCCUPATIONAL CLASSIFICATIONS

1. Skilled Labourers & Tradesmen - Machinists, Tool & Die Makers, Electricians, Plumbers, Mechanics, Carpenters, Masons, Bricklayers, Plasterers, Painters, Tailors, Butchers, Bakers.
2. Service - Policemen, Firemen, Barbers, Janitors, Housekeepers, Porters, Launderers, Taxi Drivers, Chauffeurs, Railwaymen, Truck Drivers.
3. Farmers - Farmers, Fishermen, Trappers, Hunters, Lumbermen.
4. Labourers - Unskilled.
5. Clerical - Office Clerks, Bookkeepers, Stenographers, Secretaries, Typists, Office Machine Operators.
6. Supervisory - Store Managers, Department Managers, Supervisors, Foremen.
7. Salesmen & Agents.
8. Professional - Accountants, Architects, Artists, Auditors, Clergymen, Dentists, Doctors, Engineers, Lawyers, Musicians, Nurses, Social Workers, Statisticians, Teachers, Officers in Armed Forces.
9. Proprietary & Managerial - Business owners, managers, officials.
10. Armed Forces - Other than commissioned officers.
11. Others or Unknown - (Students, Pensioners, etc.)

Table VI - 12

NIAGARA FINANCE COMPANY

CUSTOMER SURVEY - 1961

INCOME CHARACTERISTICS OF CUSTOMERS

Annual Income Bracket	Average Annual Income	Number of Customers	Per Cent Distribution
Up to $1,200	878	21	0.87
1,201 - 2,400	2,092	246	10.16
2,401 - 3,600	3,121	697	28.78
3,601 - 4,800	4,201	738	30.47
4,801 - 6,000	5,392	401	16.55
6,001 - 7,000	6,421	150	6.19
7,001 - 8,000	7,414	99	4.09
8,001 - 9,000	8,505	29	1.20
9,001 - 10,000	9,547	18	0.74
10,001 - 15,000	11,657	22	0.91
Over 15,000	15,744	1	0.04
TOTAL	4,277	2,422	100.00